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CHINA XLX FERTILISER LTD.
中國心連心化肥有限公司*

(incorporated in the Republic of Singapore with limited liability)

(Singapore stock code: B9R.SI)
(Hong Kong stock code: 01866)

OVERSEAS REGULATORY ANNOUNCEMENT

This overseas regulatory announcement is issued by China XLX Fertiliser Ltd. (the "**Company**") pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Following the announcement of the Company dated 30 July 2013 in relation to the proposed issue of CNY250,000,000 8.50% Notes due 2015 (the "**Notes**"), the attached offering circular dated 30 July 2013 (the "**Offering Circular**") was published on the website of Singapore Exchange Securities Trading Limited ("**SGX-ST**") on 7 August 2013 in relation to the listing of the Notes on the SGX-ST.

By Order of the Board
China XLX Fertiliser Ltd.
Yan Yunhua
Executive Director &
Chief Financial Officer

Hong Kong, 7 August 2013

As at the date of this announcement, the executive directors of the Company are Mr. Liu Xingxu, Ms. Yan Yunhua and Mr. Li Buwen; and the independent non-executive directors of the Company are Mr. Ong Kian Guan, Mr. Li Shengxiao and Mr. Ong Wei Jin; and the non-executive director of the Company is Mr. Lian Jie.

** for identification purpose only*

IMPORTANT NOTICE

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You are reminded that this Offering Circular has been delivered to you on the basis that you are a person into whose possession this Offering Circular may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver this Offering Circular to any other person.

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You are responsible for protecting against viruses and other destructive items. Your use of electronic mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

CHINA XLX FERTILISER LTD.
中 國 心 連 心 化 肥 有 限 公 司*

(incorporated in the Republic of Singapore with limited liability)

(Singapore stock code: B9R.SI)

(Hong Kong stock code: 01866)

CNY250,000,000 8.50% Notes due 2015

Issue price: 100%

China XLX Fertiliser Ltd. (the "**Issuer**" or the "**Company**"), a company incorporated in Singapore, is issuing CNY250,000,000 in aggregate principal amount of 8.50% Notes due 2015 (the "**Notes**"). The Notes will be unconditionally and irrevocably guaranteed (the "**Guarantee**" or the "**Guarantees**") jointly and severally by certain future subsidiaries of the Issuer (other than subsidiaries of the Issuer organised under the laws of the PRC), if any (collectively, the "**Subsidiary Guarantors**"). As of the Issue Date (as defined below), the Issuer does not have any Subsidiary Guarantors.

The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5(a) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer which will at all times rank *pari passu* without any preference among themselves and at least equally with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, save for such exceptions as may be provided by applicable laws relating to creditors' rights.

The Notes will bear interest from 6 August 2013 at the interest rate of 8.50% per annum. Interest on the Notes is payable semi-annually in arrear on 6 February and 6 August of each year (each an "**Interest Payment Date**"), commencing 6 February 2014. Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, 6 February 2015.

The Issuer may at its option redeem the Notes, in whole but not in part, in the event of certain changes affecting taxes of any of the Relevant Jurisdictions (as defined in "Terms and Conditions of the Notes"), at their principal amount, together with accrued interest. Following the occurrence of a Redemption for Sale Event (as defined in "Terms and Conditions of the Notes"), the Notes shall be redeemed in whole or in part on the next Interest Payment Date at a price equal to 101% of their principal amount, together with accrued interest. At any time following a Subsidiary Guarantor Release Event (as defined in "Terms and Conditions of the Notes"), a holder of the Notes will have the right, at such holder's option, to require the Issuer to redeem all or part of that holder's Notes at 101% of their principal amount, together with accrued interest. At any time following the occurrence of a Change of Control (as defined in "Terms and Conditions of the Notes") a holder of the Notes will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes at 101% of their principal amount, together with accrued interest. See "Terms and Conditions of the Notes — Redemption and Purchase".

For a more detailed description of the Notes, see "Terms and Conditions of the Notes".

Approval in principle has been received for the listing and quotation of the Notes on the Official List of the Singapore Exchange Securities Trading Limited (the "**SGX-ST**"). The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained herein. The approval in principle for the listing and quotation of the Notes to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Notes.

Investing in the Notes involves significant risks. See "Risk Factors" beginning on page 13.

The Notes and the Guarantees have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") and, subject to certain exceptions, may not be offered or sold within the United States. For a description of these and certain further restrictions on offers and sales of the Notes and the distribution of this Offering Circular, see "Subscription and Sale".

The Notes will be represented by beneficial interests in a global certificate (the "**Global Certificate**") in registered form, without interest coupons attached, which will be deposited on or about 6 August 2013 (the "**Issue Date**") with a sub-custodian for the Central Moneymarkets Unit Service (the "**CMU**"), the book-entry clearing system operated by the Hong Kong Monetary Authority ("**HKMA**").

Beneficial interests in the Notes represented by the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by the CMU. Except as described herein, certificates for Notes will not be issued in exchange for the Global Certificate.

The Notes have not been rated.

** for identification purpose only*

Sole Lead Manager and Manager

Morgan Stanley

Managers

中信証券國際 CITIC Securities International | 中信银行(国际) CHINA CITIC BANK INTERNATIONAL | ICBC 工银亚洲

The date of this Offering Circular is 30 July, 2013

IMPORTANT NOTICE

The Company, having made all reasonable queries, confirms that: (i) this Offering Circular contains all information with respect to the Company and its subsidiaries (collectively, the "**Group**") and to the Notes which is material in the context of the issue and offering of the Notes, including all information which, according to the particular nature of the Company, the Group and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Group and of the rights attaching to the Notes; (ii) all statements of fact relating to the Company, the Group and to the Notes contained in this Offering Circular are in all material respects true and accurate and not misleading, and that there are no other facts in relation to the Company, the Group and the Notes the omission of which would in the context of the issue of the Notes make any statement in this Offering Circular misleading; (iii) the statements of intention, opinion, belief or expectation with regard to the Company and the Group contained in this Offering Circular are honestly made or held and have been reached after considering all relevant circumstances and have been based on reasonable assumptions; and (iv) all reasonable enquiries have been made by the Company in order to ascertain such facts and to verify the accuracy of all such information and statements. The Company accepts full responsibility for the information contained in this Offering Circular.

No person has been authorised by the Company or the Group to give any information or to make any representation not contained in or not consistent with this Offering Circular or any information supplied by the Company or the Group or such other information as is in the public domain and, if given or made, such information or representation should not be relied upon as having been authorised by the Company, the Group, Morgan Stanley Asia (Singapore) Pte. (the "**Sole Lead Manager**"), China CITIC Bank International Limited ("**CNCBI**"), CITIC Securities Corporate Finance (HK) Limited ("**CSCF**") and Industrial and Commercial Bank of China (Asia) Limited ("**ICBC Asia**") (the Sole Lead Manager together with CNCBI, CSCF and ICBC Asia, the "**Managers**"), Citicorp International Limited (the "**Trustee**") or the Agents (as defined in "Terms and Conditions of the Notes"). The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to its date.

None of the Managers, the Trustee or the Agents has independently verified all the information contained herein. No representation or warranty is made or implied by the Managers, the Trustee or the Agents and none of the Managers, the Trustee, the Agents or any of their respective affiliates makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Offering Circular. To the fullest extent permitted by law, none of the Managers, the Trustee or the Agents accepts any responsibility for the contents of this Offering Circular. Each of the Managers, the Trustee and the Agents accordingly disclaim all and any liability, whether arising in tort or contract (save as referred to above), which it might otherwise have in respect of this Offering Circular or any such statement. Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Notes shall, in any circumstances, create any implication that the information contained in this Offering Circular is true subsequent to the date hereof or that there has been no adverse change in the affairs of the Company or the Group since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof.

The distribution of this Offering Circular and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company, the Managers, the Trustee and the Agents to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Offering Circular, see "Subscription and Sale" in this Offering Circular.

This Offering Circular may not be used for the purpose of an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such an offer or solicitation. This Offering Circular does not constitute an offer or an invitation to subscribe for or purchase any Notes, is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by the Company, the Group, the Managers, the Trustee, the

Agents or any of them that any recipient of this Offering Circular should subscribe for or purchase any Notes. Each recipient of this Offering Circular shall be taken to have made its own investigation and appraisal of the condition (financial or otherwise) of the Company and the Group with its own tax, legal and business advisers as it deems necessary.

In making an investment decision, investors must rely on their own examination of the Company, the Group and the terms of the offering of the Notes, including the merits and risks involved. See "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of certain factors to be considered in connection with an investment in the Notes. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers, the Trustee or any person affiliated with the Managers or the Trustee in connection with its investigation of such information or its investment decision.

Except as otherwise indicated in this Offering Circular, all non-company-specific statistics and data relating to the industry of the Group or the economies of pertinent jurisdictions, such as Singapore, Hong Kong and the PRC, have been extracted or derived from publicly available information and industry publications, including the Analysis Report of China Fertilizer and Methanol Industry published by the China National Chemical Information Centre in May 2013. Market data and certain industry forecasts used throughout this Offering Circular are based on internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information that they contain has been obtained from sources believed to be reliable but that the accuracy and completeness of that information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified by the Company, the Group, the Managers, the Trustee or the Agents or by their respective directors and advisers, and none of the Company, the Group, the Managers, the Trustee, the Agents or their respective directors and advisers makes any representation as to the correctness, accuracy or completeness of that information. In addition, third-party information providers may have obtained information from market participants and such information may not have been independently verified. None of the Managers, the Trustee or the Agents undertakes to review the financial condition or affairs of the Company or the Group during the life of the arrangements contemplated by this Offering Circular or to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Managers, the Trustee or the Agents.

The contents of this Offering Circular have not been reviewed by any regulatory authority in Singapore, Hong Kong, the PRC or elsewhere. Prospective investors should not construe anything in this Offering Circular as legal, business or tax advice. Each prospective investor should determine for itself the relevance of the information contained in this Offering Circular and consult its own legal, business and tax advisers as needed in order to make its investment decision and determine whether it is legally able to purchase the Notes under applicable laws or regulations.

This Offering Circular is an advertisement and is not a prospectus for the purposes of EU Directive 2003/71/EC.

IN CONNECTION WITH THIS OFFERING, MORGAN STANLEY ASIA (SINGAPORE) PTE. AS STABILISING MANAGER (THE "STABILISING MANAGER") OR ANY PERSON ACTING FOR THE STABILISING MANAGER MAY, SUBJECT TO ALL APPLICABLE LAWS, OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER (OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME AT THE SOLE DISCRETION OF THE STABILISING MANAGER, BUT IT MUST IN ANY EVENT BE BROUGHT TO AN END AFTER A LIMITED TIME.

FORWARD-LOOKING STATEMENTS

Certain statements under "Risk Factors", "Business", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere in this Offering Circular constitute "forward-looking statements". The words, including "anticipate", "believe", "estimate", "expect", "forecast", "plan", "schedule" and similar words or expressions, identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, but without limitation, those regarding the financial position, business strategy, prospects, capital expenditures and investment plans of the Group and the plans and objectives of the management of the Company for its future operations (including development plans and objectives relating to the operations), are forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results or performance of the Group to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements are based on numerous assumptions regarding the present and future business strategies of the Group and the environment in which it will operate in the future. The Company expressly disclaims any obligation or undertaking to release any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or any change of events, conditions or circumstances on which any such statements were based. This Offering Circular discloses, under "Risk Factors", "Management's Discussion and Analysis of Financial Condition and Results of Operations" and elsewhere, important factors that could cause actual results to differ materially from the Company's expectations. All subsequent written and forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by such cautionary statements.

PRESENTATION OF FINANCIAL INFORMATION

This Offering Circular contains the audited consolidated financial statements of the Group as of and for each of the years ended 31 December 2010, 2011 and 2012 and the unaudited condensed consolidated financial information for the four months ended 30 April 2013. The audited consolidated financial statements have been 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 unaudited consolidated financial information has been prepared in accordance of the recognition and measurement principles of SFRS. Unless otherwise stated, all financial data contained herein which is stated as relating to the Company is referring to the consolidated data of the Group.

This Offering Circular contains certain financial information relating to the Group as of and for the four months ended 30 April 2012 (the "**April 2012 Financial Information**"). The April 2012 Financial Information are based on the Company's internal management accounts for the relevant period, and has not been reviewed or audited by the Company's independent auditors. Accordingly, such information should not be relied upon by investors to provide the same quality associated with information that has been subject to an audit or a review. None of the Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisors makes any representation or warranty, express or implied, regarding the sufficiency of such consolidated financial results for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Group's financial condition and results of operations. See also "Risk Factors — Risks relating to the Group's business — The April 2012 Financial Information of the Group contained in this Offering Circular has not been audited or reviewed by the Group's independent auditors". The April 2012 Financial Information have been prepared for the sole purpose for inclusion in this Offering Circular. The Company does not plan to prepare financial statements for four month periods in the future. The Company's financial results for any interim period are not necessarily indicative of the Company's results for the full financial year or of the Company's performance in future years.

Certain monetary amounts in this Offering Circular have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Unless otherwise stated in this Offering Circular, all translations from Renminbi amounts to U.S. dollars were made at the rate of RMB6.2301 to US$1.00, the noon buying rate in New York City for cable transfers payable in Renminbi as set forth in the H.10 statistical release of the Federal Reserve Bank of New York on 31 December 2012.

CERTAIN DEFINITIONS AND CONVENTIONS

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "Issuer" or "Company" are to China XLX Fertiliser Ltd., all references to the "Group" are to the Company and its subsidiaries, all references to "coal" are to all types of coal, including, without limitation, anthracite and coal powder, all references to "coal cost" are to the cost of coal and all references to "coal price" are to the price of anthracite coal.

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the "PRC" and "China" are to the People's Republic of China (excluding Hong Kong, Macao and Taiwan), all references to "PRC government" mean the central government of the PRC, including all political subdivisions (including provincial, municipal and other regional or local governmental entities) and instrumentalities thereof, all references to "United States" and "U.S." are to the United States of America, all references to "Hong Kong" are to the Hong Kong Special Administrative Region of the People's Republic of China, all references to "Macao" are to the Macao Special Administrative Region of the People's Republic of China, all references to "CNY", "Renminbi" and "RMB" are to the lawful currency of the PRC, all references to "Singapore dollars", "S$" or "SGD" are to the lawful currency of Singapore and all references to "USD", "U.S. dollars" and "U.S.$" are to the lawful currency of the United States of America. All references to the "CNCIC Report" are to the "Analysis Report of China Fertilizer and Methanol Industry" published by the China National Chemical Information Center in May 2013.

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SUMMARY

The summary below is only intended to provide a limited overview of information described in more detail elsewhere in this Offering Circular. As it is a summary, it does not contain all of the information that may be important to prospective investors. Prospective investors should therefore read this Offering Circular in its entirety. Terms defined elsewhere in this Offering Circular shall have the same meaning when used in this summary.

Overview

The Company was incorporated in Singapore in 2006 and the principal place of business of the Group is in Henan Province in China. The Company has been listed on the SGX-ST since 20 June 2007 and on The Stock Exchange of Hong Kong Limited (the "**HKSE**") since 8 December 2009. The Group's principal activities are manufacturing, sales and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution.

According to the Analysis Report of China Fertiliser and Methanol Industry published by the China National Chemical Information Centre in May 2013 ("**CNCIC Report**"), the Group was the largest urea producer in Henan Province in 2012 in terms of production capacity. As of 31 December 2012, the Group's total annual production capacity of urea, compound fertiliser and methanol was approximately 1.25 million tonnes, 750,000 tonnes and 200,000 tonnes per annum, respectively. The Group's annual urea production volume constitutes about 19.5% of the total annual urea production capacity in Henan Province, which is substantially greater than the second largest urea producer in Henan. The CNCIC Report also reports that the Group is the third largest urea-based compound fertiliser producer in the PRC in terms of production capacity and the sixth largest methanol producer in terms of production volume in Henan Province.

The Group is also a highly efficient producer of urea. According to the CNCIC Report, the Group's urea production cost in 2012 was the lowest in Henan Province at RMB1,474 per tonne, which was also lower than the national average of RMB1,773 per tonne for all coal-based urea producers. The Group also benefits from a number of important cost advantages.

Firstly, the Group's headquarter and production facilities are strategically located near Zhengzhou city in Henan Province, which is one of the PRC's major transportation hubs and has one of the highest fertiliser consumption in the PRC, and is well-supported by a comprehensive network of railways and highways. The Group is able to source the coal it uses in its production processes from within Henan Province and from the neighbouring coal-rich Shanxi Province. The Group's production facilities are situated near the Yellow River, which provides plentiful water supplies for its production activities. Located in the central part of the PRC, the Group enjoys lower transportation costs and is able to cater to the needs of different customers located in different regions of the PRC, giving it a competitive edge in terms of cost and quality of service.

Secondly, coal is the largest cost component of the Group's urea production, accounting for approximately 57.1% of the Group's cost of sales for urea in 2012. Through the use of advanced production technologies and by benefiting from economies of scale, the Group is able to operate at lower cost per unit compared to its competitors. According to the CNCIC Report, the Group's coal consumption per tonne of urea production in 2012 ranked number three among major coal-based urea producers in the PRC, using on average approximately 630kg of coal to produce one tonne of urea, while the average coal consumption volume among major coal-based urea producers in the PRC was approximately 732.6kg per tonne of urea. The Group has long-term relationships with its coal suppliers which enables it to have a stable and consistent supply of high quality coal. For example, in May 2012 one of the Company's wholly-owned subsidiaries Henan Xinlianxin Fertiliser Co., Ltd., ("**Henan XLX Fertiliser**") entered into a three-year sales agreement with Shanxi Asian American-Daning《山西亞美大寧能源有限公司》Energy Co., Ltd., to guarantee anthracite coal supply for its production base in Henan Province. In August 2011, Henan XLX Fertiliser entered into a five-year supply agreement with Henan Coal Chemical Industry Group Co., Ltd., the largest mining group in Henan Province.

Thirdly, electricity is also a major cost component of the Group's production activities. The Group has three in-house power generating systems which offer the Group the flexibility to either purchase electricity from the market or generate its own electricity depending on the market price and availability of power subsidies from the PRC government. The Group currently purchases the majority of its electricity needs from external sources but its own power generators have the capacity to produce about 40% of the Group's current electricity needs.

For 2010, 2011 and 2012, the Group recorded revenue of approximately RMB2,851 million, RMB3,688 million and RMB3,946 million, respectively, representing a CAGR of approximately 11.4%. During the same period, the Group's profit after tax amounted to approximately RMB145 million, RMB181 million and RMB311 million, respectively. The Group recorded revenue of approximately RMB1,336.5 million and profit after tax of approximately RMB156.7 million for the four months ended 30 April 2013.

Competitive Strengths

The Company believes that its competitive strengths are as follows:

- ***Leading position in an attractive and sustainable industry***

According to the CNCIC Report, the Group was the largest urea producer in Henan Province in 2012 in terms of production capacity with approximately 1.25 million tonnes of urea annually. By comparison, the second largest urea producer in Henan has an annual production capacity of only approximately 700,000 tonnes. The Group is also the fourth largest coal-based urea manufacturer in terms of production capacity and the third largest urea-based compound fertiliser producer in the PRC, based on the CNCIC Report. When the Group's fourth production plant commences operations in the third quarter of 2013, it will boost the Group's annual urea production capacity by 800,000 tonnes to approximately 2.1 million tonnes. The Group's leading market position enables it to enjoy economies of scale and lower costs, which are of great importance in the highly fragmented urea market in the PRC where it is difficult for manufacturing companies to have product differentiation and pricing power. In addition, the Group's market leading position will allow it to maximise the opportunities arising from the need to achieve higher crop yield and productivity in the PRC agricultural industry as population and urbanisation increases, which will support the sustainable growth of demand for urea and compound fertiliser.

- ***Highly efficient production with integrated industrial value chain***

The Group is committed to the integration of the industrial value chain from securing a stable supply of raw materials to obtaining a wide distribution network for its products and ensuring good customer service. The Company has already secured relationships with upstream players such as coal mines and downstream players such as fertiliser distributors to secure supplies of raw materials and to extend its sales network. For example, Sinofert Holdings Limited, the largest customer of the Group and the largest fertiliser distributor in China, is the third largest shareholder of the Company. In 2012, the Group established a joint venture company with Sinoagric Chain Co., Ltd.《華農農資連鎖股份有限公司》for a period of at least 50 years to manufacture and sell compound fertiliser and related products. It has also entered into a strategic cooperation agreement in 2012 with Henan Haofeng Company, a leading agricultural machinery company in Henan Province and Henan Qiule Seed Industry Science Technology Co., Ltd., a leading seeds company in Henan Province, to jointly develop "fertilisation at sowing" applications.

In addition, the Group's urea production cost was the lowest among urea producers in Henan Province in 2012. According to the CNCIC Report, the Group had an average urea production cost per tonne of approximately RMB1,474 for 2012 as compared to the annual national average of RMB1,773 per tonne for all coal-based urea producers. The Group is able to maintain a high level of efficiency by maintaining a high overall utilisation rate for its production facilities. The Group's overall utilisation rate of its production facilities in 2012 was 105%. The Group is able to keep costs low through the use of advanced technology and economies of scale, maintaining long-term relationships with raw material suppliers such as Henan Coal Chemical Industry Group Co., Ltd. ("**Henan Chemical**"), the largest coal mining group in Henan Province, to ensure a steady and well-priced supply of coal, the use of wholly-owned captive power supply generators that reduce electricity costs and a self-built and owned 1 kilometre railway that runs from the Group's production plant to a major railway hub in Henan. In 2012, Henan XLX Fertiliser was conferred the title of "*Ammonia Energy Consumption Leader*" by the Ministry of Industry and Information Technology and the China Petroleum and Chemical Industry Federation.

- ***Strategic geographic positioning***

Henan Province where the Group is headquartered and its production facilities are located, is one of the PRC's most populous provinces, with the highest crop production volume and is where the majority of the Group's end market users are located. This offers the Group close proximity to the majority of its end market users. The Group believes that Henan Province will experience a more rapid and remarkable growth with the development of the Central Plains Economic Zone. In November 2012, after the conclusion of the 18th session of the National People's Congress, the State Council officially approved the Central Plains Economic Zone Planning《中原經濟區規劃》, pursuant to which Henan Province, being the core of the central plain economic zone, will be the most important place to implement the planning and undertake the key mission of crop production in the PRC.

The Group's location in Henan Province also offers close proximity to coal, its largest raw material cost component. The province has ample coal mine supply and since August 2011 the Group has been sourcing over 30% of the Group's current anthracite coal and steam coal requirements from Henan Province in accordance with a five-year strategic cooperation agreement with Henan Chemical, which is the largest coal producer in Henan Province. The Group is also close to coal-rich Shanxi Province from which the Group will source the remaining portion of its coal requirements. In May 2012, Henan XLX Fertiliser entered into a three-year sale agreement with Shanxi Asian American-Daning Energy Co., Ltd.,《山西亞美大寧能源有限公司》to guarantee anthracite coal supply to its production base in Henan Province.

The Group's headquarter and production facilities are strategically located near Zhengzhou city in Henan Province, one of the PRC's major transportation hubs. It is well-supported by a comprehensive network of railways and highways. Located centrally in the PRC, the Group enjoys lower transportation costs and is able to cater to the needs of customers located in different regions of the PRC, giving it a competitive edge in terms of cost and quality of service. In addition, the Group's factories are situated near the Yellow River, giving the Group access to sufficient water supplies for its production.

- ***Strong brand and wide distribution network***

The Group has extensive distribution channels with more than 5,000 network locations around China and also has one of the largest national agrichemical service centres in the PRC, which enables it to offer comprehensive marketing and consulting services relating to fertiliser application to farmers, the end market users of the Group's products. The Group has received numerous awards, including "China's Top 100 Agrichemical Service Enterprise for 2012" and the "Quality Benchmark Enterprise for 2012". The Group has also received various other national and regional accolades for its patents and technology and after-sale service, all of which have helped raise the Group's brand recognition among its customers.

- ***Highly experienced management team and committed workforce***

The Group's employees are committed to its success. About 29.8% of the Company's total shares are held by about 40% of the Group's employees. This aligns the Group's employees' interests with the Group's interests and motivates the Group's employees to improve efficiency and contribute to cost savings to achieve higher profits for the Group. The Group's employee turnover rate is less than 3% per annum as of 31 December 2012. The Group's senior management team holds an additional 34.8% of the total shares in the Company and has on average served the Company for over 20 years. The Group's employees and management team work closely with the directors to formulate its business and growth strategies. In addition, the Company insists on a strict quality control system and maintains strict internal policies regarding process control, which is critical to the success of the Group. All employees are required to maintain a high standard of discipline. As a result, the Group can operate its business efficiently and achieve cost-effectiveness. The Company believes that its experienced management team and its stringent control system will allow it to continue to maintain its cost-competitiveness in the future.

- ***Continuously improving corporate governance and internal control***

The Company is committed to achieving and maintaining a high standard of corporate governance principles and processes in managing the business and affairs, so as to improve the performance, accountability, and transparency of Group. Ernst & Young has been the Company's external auditor for more than eight years and since 2010, the Company has engaged PricewaterhouseCoopers to conduct internal audit for the Group to enhance internal risk control over eight areas: fixed assets, capital management, financial report, information system, purchasing, sales, inventory and security of funds and operation efficiency.

- ***Rigorous financial discipline***

The Group has strong cashflows because it receives cash or prepayments for all sales of urea and methanol. The Group also receives cash for most of its sales of compound fertiliser although it may grant a credit period of up to 90 days for some of its more reputable customers. The Group's net cashflows from operating activities increased from approximately RMB180 million in 2011 to approximately RMB665.4 million in 2012, and the Group's net cashflows from operating activities was approximately RMB387.7 million for the four months ended 30 April 2013.

Business Strategies

The Group's goal is to become the most profitable coal-based urea producer in the PRC. The Group's business strategies are as follows:

- ***Strengthen its core business and achieve technology upgrades***

The Group is constructing two production plants which will, when completed, enable the Group's total urea production capacity to surpass 2.6 million tonnes per annum, doubling its present production capacity. The Group will also expand into the coal chemical chain and use new cost-saving technology available in the market, such as using coal powder to produce coal gas for urea production in the gas-making process. The Group will also continue to commit resources to its research and development toward technology advancement, such as developing energy-saving, environmentally-friendly burners and other technology that can lower production costs. In 2012, Henan XLX Fertiliser was awarded the New/High Tech Enterprise award as recognition of its innovation and use of state-of-the-art equipment. The Group has also invested in recruiting employees from reputable agricultural and technology schools around the nation to improve its understanding of fertiliser application and usage and also to provide agrichemical services to farmers in the PRC. The Company believes these investments will be beneficial to its production and contribute to maintaining its leading position in the chemical fertiliser industry.

- ***Develop specialised fertiliser products***

The Group will continue to strengthen its cooperation with the Chinese Academy of Sciences as well as Sinoagric Chain Co., Ltd. for the development of slow release urea and slow release compound fertiliser, which will help the Group to diversify its product offering and create demand for new value-added fertiliser products. The Group will also continue to cooperate with Henan Haofeng Company, a leading agricultural machinery company in Henan Province and Henan Qiule Seed Industry Science and Technology Co., Ltd., a leading seeds company in Henan Province, to jointly develop "fertilisation at sowing" applications.

- ***Vertical and horizontal integration of the industrial value chain***

The Company believes that the fertiliser industry in the PRC will continue to grow and competition will continue to increase. Hence, the Company will, from time to time, prudently and selectively review opportunities to improve the Group's business through better vertical and horizontal business integration and investment. The Company will consider investing in appropriate vertical integration opportunities, such as acquisitions of or strategic cooperation with raw material suppliers to ensure stable and consistent feedstock supplies at competitive costs.

SUMMARY OF THE OFFERING

The following summary contains some basic information about the Notes. Some of the terms described below are subject to important limitations and exceptions. Words and expressions defined in "Terms and Conditions of the Notes" and "The Global Certificate" shall have the same meanings in this summary. For a more complete description of the terms of the Notes, see "Terms and Conditions of the Notes" in this Offering Circular.

Issuer	China XLX Fertiliser Ltd.
Principal amount of the Notes	CNY250,000,000 aggregate principal amount of 8.50% Notes due 2015.
Issue Price	100% of the principal amount.
Form and Denomination	The Notes will be issued in registered form, without coupons attached, in the denomination of CNY1,000,000 each and in integral multiples of CNY100,000 in excess thereof.
Interest	The Notes will bear interest at a rate of 8.50% per annum.
Interest Payment Dates	The Notes will bear interest from and including 6 August 2013, payable semi-annually in arrear on 6 February and 6 August in each year, commencing 6 February 2014.
Issue Date	6 August 2013.
Maturity Date	On the Interest Payment Date falling on, or nearest to, 6 February 2015.
Status of the Notes	The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5(a) of the Terms and Conditions of the Notes) unsecured obligations of the Issuer, which will at all times rank *pari passu* and without any preference among themselves and at least equally with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, save for such exceptions as may be provided by applicable laws relating to the creditors' rights.
Guarantee	The Notes will be unconditionally and irrevocably guaranteed jointly and severally by certain future Subsidiaries of the Issuer (other than Subsidiaries organised under the law of the PRC), if any. As of the Issue Date, the Issuer does not have any Subsidiary Guarantors. The Guarantee (if given) will constitute direct, unconditional, unsubordinated and (subject to Condition 5(a) of the Terms and Conditions of the Notes) unsecured obligations of Subsidiary Guarantors which will at all times rank at least *pari passu* and without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of such Subsidiary Guarantors, present and future, save for such exceptions as may be provided by applicable laws relating to creditors' rights. A Subsidiary Guarantor may be released from the Guarantee on the occurrence of certain events. See "Terms and Conditions of the Notes — Release of Subsidiary Guarantor".

Negative Pledge	The Notes will contain a negative pledge provision as further described in Condition 5(a) of the "Terms and Conditions of the Notes".
Financial Covenants	For so long as any Note remains outstanding, the Issuer shall not, directly or indirectly, permit: (i) the Consolidated Tangible Net Worth of the Group as at the end of any Relevant Period to be less than RMB1.8 billion; (ii) the Maximum Leverage Ratio to exceed 1.5 to 1.0 as at the end of first and second Relevant Period after the Closing Date or to exceed 1.25 to 1.0 as at the end of each Relevant Period thereafter; and (iii) the Dividend with respect to any fiscal year to be more than 50% of Net Profit After Tax per Annum with respect to the same fiscal year. Further, subject to the limitations set out in Condition 5(b)(2) of the Terms and Conditions of the Notes, the Issuer shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, incur any Financial Indebtedness, provided, however, that the Issuer and any Subsidiary may incur Financial Indebtedness, in each case if, after giving effect to the incurrence of such Financial Indebtedness and the receipt and application of the proceeds therefrom, (x) no Event of Default has or would have occurred and is or would be continuing and (y) the EBITDA Coverage Ratio would have been at least 2.5 to 1.0. See "Terms and Conditions of the Notes — Covenants and Undertakings — Financial Covenants".
Taxation	All payments in respect of the Notes will be made free and clear of, and without withholding or deduction for or on account of any present or future taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by or on behalf of, or within, any Relevant Jurisdictions, unless such withholding or deduction is required by law. In that event, the Issuer or as the case may be, the relevant Subsidiary Guarantor, shall (except in certain circumstances as set out in the Terms and Conditions of the Notes) pay such additional amounts as will result in the receipt by the Noteholders of such amounts as would have been received by them if no such withholding or deduction had been required. See "Terms and Conditions of the Notes — Taxation".
Redemption for Taxation	The Notes may be redeemed at the option of the Issuer in whole, but not in part, at their principal amount together with interest accrued in the event of certain changes affecting the taxes of a Relevant Jurisdiction. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Taxation Reasons".

Redemption for Change of Control..	Following the occurrence of a Change of Control, subject to fulfilment of the requirements of Condition 7(e) of the Terms and Conditions of the Notes, a Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all but not some only of that Noteholder's Notes, at 101% of their principal amount, together with accrued interest. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Change of Control".
Redemption for Sale.........................	Following the occurrence of a Redemption for Sale Event, the Notes shall be redeemed in whole or in part at a price equal to 101% of their principal amount, together with accrued interest. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Sale".
Redemption for Release of Subsidiary Guarantor....................	Following a Subsidiary Guarantor Release Event, subject to fulfilment of the requirements of Condition 7(d) of the Terms and Conditions of the Notes, a Noteholder will have the right, at such Noteholder's option, to require the Issuer to redeem all or part of that Noteholder's Notes at 101% of their principal amount, together with accrued interest. See "Terms and Conditions of the Notes — Redemption and Purchase — Redemption for Release of Subsidiary Guarantor".
Events of Default	For a description of certain events of default that will permit the Notes to become immediately due and payable at their principal amount, together with accrued interest, see "Terms and Conditions of the Notes — Events of Default".
Further Issues	The Issuer may from time to time, without the consent of the Noteholders, create and issue further securities having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. See "Terms and Conditions of the Notes — Further Issues".
Clearing Systems.............................	The Notes will be issued in registered form and represented by the Global Certificate deposited with a sub-custodian for the CMU, the book-entry clearing system operated by the HKMA, and will be exchangeable for definitive certificates in registered form only in the limited circumstances set out therein. For persons seeking to hold a beneficial interest in the Notes through Euroclear or Clearstream, Luxembourg, such persons will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg (as the case may be) with the CMU operator.
Clearance and Settlement	The Notes have been accepted for clearance by CMU under the CMU Instrument Number of CILHFN13017. The Common Code of the Notes is 095558348. The ISIN Number is HK0000157989.
Governing Law................................	The Notes, the Trust Deed and any non-contractual obligations arising out of, or in connection with, them are governed by and shall be construed in accordance with English law.

Trustee	Citicorp International Limited.
Principal Paying Agent, CMU Lodging Agent and Transfer Agent	Citicorp International Limited.
Registrar	Citicorp International Limited.
Listing	Approval in principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained in this Offering Circular. The approval in principle for the listing and quotation of the Notes on the SGX-ST is not to be taken as an indication of the merits of the Notes.
Rating	The Notes have not been rated by any rating agency.

SUMMARY FINANCIAL DATA

The following table presents the summary historical financial data of the Group as of and for the years ended 31 December 2010, 2011 and 2012, all of which is derived from the audited consolidated financial statements of the respective periods, and the summary historical financial data of the Group as of and for the four months ended 30 April 2013, which is derived from the unaudited condensed consolidated financial information of that period. The summary historical financial data should be read in conjunction with the audited consolidated financial statements as of and for the years ended 31 December 2010, 2011 and 2012 and the unaudited condensed consolidated financial information as of and for the four months ended 30 April 2013, including the related notes, beginning on page F-1 in this Offering Circular. The audited financial statements of the Group are prepared and presented in accordance with SFRSs. The financial information for the four months ended 30 April 2013 has been prepared in accordance with the recognition and measurement principles of SFRSs. The financial position and results of operations of the Group as of and for the four months ended 30 April 2013 should not be taken as an indication of the expected financial position and results of operations for the full year ending 31 December 2013. The April 2012 Financial Information set forth below are based on its internal management accounts for the relevant period, and has not been reviewed or audited by the Company's independent auditors. Accordingly, such information should not be relied upon by investors to provide the same quality associated with information that has been subject to an audit or a review. None of the Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisors makes any representation or warranty, express or implied, regarding the sufficiency of such consolidated financial results for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Group's financial condition and results of operations. See also "Risk Factors — Risks relating to the Group's business — The April 2012 Financial Information of the Group contained in this Offering Circular has not been audited or reviewed by the Group's independent auditors".

Summary Consolidated Statements of Comprehensive Income

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000)		(RMB '000)	
		(Audited)		(Unaudited and unreviewed)	(Unaudited)
Revenue	**2,851,403**	**3,688,233**	**3,945,584**	**1,367,851**	**1,336,514**
Cost of sales	(2,487,342)	(3,181,860)	(3,225,942)	(1,151,993)	(1,029,805)
Gross profit	**364,061**	**506,373**	**719,642**	**215,858**	**306,709**
Other income, net	8,203	3,961	6,693	5,319	5,324
Selling and distribution expenses	(38,686)	(70,500)	(69,462)	(21,122)	(22,679)
General and administrative expenses	(104,150)	(136,059)	(202,493)	(60,208)	(78,930)
Finance costs	(53,447)	(78,930)	(82,359)	(27,041)	(24,499)
Profit before tax	**175,981**	**224,845**	**372,021**	**112,806**	**185,925**
Income tax expense	(31,410)	(44,337)	(61,020)	(17,272)	(29,266)
Profit for the year/period	**144,571**	**180,508**	**311,001**	**95,534**	**156,659**

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000)		(RMB '000)	
		(Audited)		(Unaudited and unreviewed)	(Unaudited)
Other comprehensive income					
Available-for-sale investment:					
Change in fair value	—	(16,073)	(1,004)	1,959	4,326
Reclassification adjustment for impairment loss included in profit or loss	—	16,073	1,004	—	—
Other comprehensive income for the year/period, net of tax	—	—	—	1,959	4,326
Total comprehensive income for the year/period	144,571	180,508	311,001	97,493	160,985
Profit attributable to:					
Owners of the parent	144,571	180,508	311,121	95,534	157,157
Non-controlling interest	—	—	(120)	—	(498)
	144,571	180,508	311,001	95,534	156,659
Total comprehensive income attributable to:					
Owners of the parent	144,571	180,508	311,121	97,493	161,483
Non-controlling interest	—	—	(120)	—	(498)
	144,571	180,508	311,001	97,493	160,985
Earnings per share attributable to ordinary equity holders of the parent (RMB cents per share)					
Basic and diluted	14.46	17.96	26.46	8.1	13.4

Summary Consolidated Statements of Financial Position

	31 December			30 April
	2010	2011	2012	2013
		(RMB '000) (Audited)		(RMB '000) (Unaudited)
Non-current assets				
Property, plant and equipment	2,414,545	2,542,168	3,019,025	3,672,216
Prepaid land lease payments	89,860	89,165	175,290	174,009
Goodwill	—	6,950	6,950	6,950
Coal mining right	—	41,763	41,955	41,427
Available-for-sale investment	21,778	—	7,500	7,500
Deferred tax assets	—	—	4,706	4,706
Prepayments for purchases of items of plant and equipment	4,098	216,822	721,626	685,589
Total non-current assets	**2,530,281**	**2,896,868**	**3,977,052**	**4,592,397**
Current assets				
Due from a related company	—	—	1,760	2,128
Available-for-sale investment	—	5,705	4,701	9,027
Inventories	353,922	593,114	432,366	348,191
Trade receivables	13,567	28,725	15,520	24,696
Bills receivable	18,720	2,050	1,740	1,650
Prepayments	73,957	116,533	140,630	121,643
Deposits and other receivables	7,461	13,339	49,080	105,643
Derivative financial assets	—	—	—	—
Income tax recoverable	15,895	7,263	3,858	2,959
Pledged deposits	18,780	10,000	12,900	12,900
Cash and cash equivalents	162,773	514,098	477,610	462,311
Total current assets	**665,075**	**1,290,827**	**1,140,165**	**1,091,148**
Total assets	**3,195,356**	**4,187,695**	**5,117,217**	**5,683,545**
Current liabilities				
Due to related companies	723	163	135	4,616
Trade payables	40,152	120,843	110,773	75,030
Bills payable	37,500	—	25,800	25,800
Accruals and other payables	265,049	336,373	422,437	564,279
Income tax payable	—	864	4	4
Deferred grants	3,960	3,465	3,596	3,596
Interest-bearing bank and other borrowings	200,000	541,000	172,000	178,250
Short-term bond payable	—	—	300,000	300,000
Total current liabilities	**547,384**	**1,002,708**	**1,034,745**	**1,151,575**
Net current assets/(liabilities)	**117,691**	**288,119**	**105,420**	**(60,427)**
Total assets less current liabilities	**2,647,972**	**3,184,987**	**4,082,472**	**4,531,970**
Non-current liabilities				
Deferred grants	—	—	23,474	25,980
Interest-bearing bank and other borrowings	1,023,411	1,067,091	1,679,485	2,028,612
Deferred tax liabilities	35,071	56,219	51,081	50,961
Total non-current liabilities	**1,058,482**	**1,123,310**	**1,754,040**	**2,105,553**
Total liabilities	**1,605,866**	**2,126,018**	**2,788,785**	**3,257,128**
Net assets	**1,589,490**	**2,061,677**	**2,328,432**	**2,426,417**
Equity attributable to owners of the parent				
Issued capital	836,671	836,671	836,671	836,671
Convertible bonds	—	321,996	322,436	327,235
Statutory reserve fund	110,678	133,655	167,873	184,569

	31 December			30 April
	2010	2011	2012	2013
		(RMB '000) (Audited)		(RMB '000) (Unaudited)
Available for sale investment revaluation reserve	—	—	—	4,326
Retained profits	612,141	732,355	931,222	1,066,884
Proposed final dividend	30,000	37,000	63,000	—
	1,589,490	2,061,677	2,321,202	2,419,685
Non-controlling interest	—	—	7,230	6,732
Total equity	**1,589,490**	**2,061,677**	**2,328,432**	**2,426,417**
Total equity and liabilities	**3,195,356**	**4,187,695**	**5,117,217**	**5,683,545**

Summary Consolidated Statements of Cash Flows

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000) (Audited)		(RMB '000) (Unaudited and unreviewed)	(Unaudited)
Net cash inflow from operating activities	184,341	179,980	665,391	246,841	248,897
Net cash outflow from investing activities	(409,899)	(507,384)	(1,201,027)	(66,067)	(556,573)
Net cash inflow/(outflow) from financing activities	248,535	678,729	499,148	(261,500)	292,377
Net increase/(decrease) in cash and cash equivalents	**22,977**	**351,325**	**(36,488)**	**(80,726)**	**(15,299)**
Cash and cash equivalents at beginning of the year/period	139,796	162,773	514,098	514,098	477,610
Cash and cash equivalents at end of the year/period	162,773	514,098	477,610	433,372	462,311

Other Financial Data

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000)		(RMB '000)	
EBIT[(1)]	229,428	303,775	454,380	139,847	210,424
EBITDA[(2)]	397,055	478,179	638,164	199,765	272,360
Capital expenditure	288,860	263,520	757,317	31,156	510,597

Notes:

(1) EBIT means earnings before interest and tax, and is calculated by adding back income tax expense and finance costs to profit for the year/period. EBIT is not a measure of financial performance under generally accepted accounting principles in Singapore and the EBIT measures used by the Company may not be comparable to other similarly titled measures of other companies. EBIT should not necessarily be construed as an alternative to results from operations.

(2) EBITDA means earnings before interest, tax, depreciation and amortisation, and is calculated by adding back income tax expense, finance costs, depreciation and amortisation to profit for the year/period. EBITDA should not be considered by an investor as an alternative to cash flows or results as determined in accordance with generally accepted accounting principles in Singapore. The Company's calculation of EBITDA may differ from similarly titled computations of other companies.

RISK FACTORS

Prospective investors should consider carefully, together with all other information contained in this Offering Circular, the risks described below before deciding to invest in the Notes. The risks described below are not the only ones the Group faces. Additional risks not presently known to the Group or that the Group currently deems immaterial may also impair the Group's business operations. The Group's business, financial condition, results of operations and prospects could be materially and adversely affected by any of these risks. The market price of the Company's Notes could decline due to these risks and you may lose all or part of your investment.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The actual results of the Group's operations could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks the Group faces as described below and elsewhere in this Offering Circular.

Before deciding to invest in the Notes, prospective investors should seek professional advice from their advisers about their particular circumstances.

RISKS RELATING TO THE GROUP'S BUSINESS

PRC government policies affecting the PRC agricultural industry may impact the Group's business and financial performance

The Group's business is affected by the performance and growth of the PRC agricultural industry as the Group's fertiliser products are a key component of agricultural production. The PRC agricultural industry is a priority for the government which it supports through subsidies to farmers. According to the CNCIC Report, the subsidies have increased substantially, reaching RMB168.2 billion in 2012, an increase of 4.3 times compared to 2006. The CNCIC Report also states that investment by the government in the agricultural industry has increased significantly in eight years from RMB262.6 billion in 2004 to RMB1,228.7 billion in 2012. In addition, the Twelfth Five-Year Plan passed by the PRC National People's Congress on 14 March 2011 (the "Twelfth Five-Year Plan") targets the industrialisation of the agricultural industry and promotes the development and use of agricultural technology, including the application of new generation fertilisers, and the balanced use of fertilisers. These policies supporting the agricultural industry are beneficial to the fertiliser industry and the sales of the Group's fertiliser products. Consequently, any adverse change to governmental policies, such as the removal of the PRC government's funding or subsidies, may adversely affect the agricultural industry and hence have an adverse impact on the demand for the Group's products. This may in turn have a material adverse effect on the Group's sales, business operations and financial performance.

PRC government policies affecting the fertiliser industry may impact the Group's business and financial performance

Pursuant to the Twelfth Five-Year Plan, the PRC government aims to encourage consolidation in the PRC fertiliser industry by promoting conditions that will benefit large-sized fertiliser producers and, in particular, those whose operations are situated in locations which have a competitive advantage because of their proximity and access to natural resources (such as Henan Province). Leading fertiliser producers are encouraged and given support by the PRC government to optimise resources through industrialisation, integration of production elements and maximising economies of scale. Under the Twelfth Five-Year Plan, the PRC government has set a target for 80% of the nation's total production capacity of nitrogen and phosphate fertiliser to be produced by medium and large-sized nitrogen and phosphate producers by 2015, with the goal to have 20 large-sized nitrogen-based fertiliser producers dominating the market. Conversely, policies affecting large-sized fertiliser producers will make it more difficult for the smaller-sized fertiliser producers to compete effectively, which will further consolidate the fertiliser industry. As the Group is currently the largest urea producer in Henan Province in terms of production capacity and one of the largest urea producers in the PRC, the Company believes these government policies will enhance the competitiveness of the Group and reduce the number of smaller players in the region, which may enable the Group to increase its market share. However, there is no assurance that such government policies will have a positive effect on the Group's financial performance or business operations, nor is there any assurance that the PRC government will continue to support such industrialisation and consolidation of the fertiliser industry at the same level. If the PRC government were to decrease or cease its support for the industrialisation and consolidation of the fertiliser market, in whole or in part, the Group's growth and strategy may be adversely affected.

The PRC government's Twelfth Five-Year Plan also aims to strictly control the approval of new nitrogen-based fertiliser projects for the next three years. As the PRC government currently believes that the fertiliser industry has surplus capacity, according to the CNCIC Report, it is likely that the rate of growth in fertiliser production capacity in the PRC will decrease, at least until such surplus capacity has been fully utilised. The Company, however, believes that the Twelfth Five-Year Plan will not affect those projects which have already been approved and consequently, the development of the Group's fourth plant, which was approved in October 2010 by the Xinxiang County Development and Reform Commission, is proceeding as planned to enable the Company to capitalise on the expected industry consolidation described above. There is no assurance that the PRC government's restrictions on nitrogen-based fertiliser projects will not adversely affect the Group's expansion and development of its existing and future production plants.

Electricity comprises a significant portion of the Company's cost of sales because the Company purchases the majority of its electricity. The PRC government currently provides electricity subsidies to chemical fertiliser producers in the PRC, including the Company. On 27 May 2011, the PRC's National Development and Reform Commission (the "NDRC") issued a notice that it would increase electricity prices in Henan Province from 1 June 2011, which increased the Group's purchased electricity costs to between RMB0.4003 per kWh and RMB0.4103 per kWh in respect of all electricity purchased from the PRC national grid. If there are any unfavourable changes in electricity prices or governmental subsidies, the Group's net profit will be reduced and the Group's business and financial performance will be materially and adversely affected.

According to the CNCIC Report, the transportation of fertiliser is currently exempted from railway construction fees and the cost of transporting fertiliser products is increasing these years, and rail freight prices of fertiliser have been raised eight times since 2006 and there is no assurance that freight prices will not rise again in the future.

Furthermore, there is no assurance that the PRC government will not from time to time impose new policies or change existing policies which might impact the PRC fertiliser industry or have a material and adverse effect on the Group's production or sales, its business, financial condition and results of operations.

The cyclical nature of the fertiliser industry may cause significant fluctuations in the demand and prices for the Group's products

The Group's performance is affected by cyclical trends in supply and demand within the fertiliser and methanol industry, notwithstanding that the PRC fertiliser industry has generally experienced year-on-year growth in fertiliser consumption since 1990. In the PRC fertiliser industry, periods of high prices of fertiliser and increased profits tend to lead to new plant investment, increased production and increased sourcing of fertiliser products from third parties. This increases overall supply until the market becomes saturated, leading to a fall in prices and the stockpiling of products, resulting in slower growth and less total output until the next rise in prices, at which point the cycle repeats itself. As a result, fertiliser prices are volatile. This price volatility may cause the Group's results of operations to fluctuate and potentially deteriorate. The price at which the Group sells its fertiliser products could fall in the event of industry oversupply conditions, which could have a material adverse effect on the Group's business, financial condition and results of operations. As there is no hedging product available for fertilisers, price fluctuations could significantly affect the Group's results of operations. While the Group has implemented measures to balance the cyclical nature of the fertiliser and methanol business, there is no assurance that these measures will be effective in eliminating such risk.

The majority of the Group's customers are distributors of fertilisers to farmers and the Group relies on these distributors to provide its fertilisers to end-market users

The Group does not have its own direct distribution channels. Many of the Group's customers are distributors of fertilisers and the Group relies on them to deliver its products to farmers. While the Group has long-term relationships with many of these distributors and has an evaluation and management system to manage these distributors, the Group cannot guarantee that each distributor will continue to place orders or that they will order the estimated purchase volumes determined at the beginning of each year. Such estimated purchase volumes are not binding orders and there is no assurance that the estimated order amounts will be the actual amounts such distributors order and pay for. If the amounts ordered by some key distributors are significantly lower than anticipated, the Group may have to find alternative customers or sell the fertiliser products at a lower price to other customers, which may have a material adverse effect on the Group's business and financial performance.

Seasonality could affect the Group's operational results

Demand for fertilisers in the PRC varies seasonally, and due to varying climates, types of crops and farming techniques used in the various provinces, fertiliser consumers in the PRC have distinct seasonal and regional characteristics in their fertiliser needs. The Company believes it is able to adjust its sales to meet demand in different provinces and manage its inventory based on anticipated crop schedules and historical sales patterns. However, any inability to manage the Group's inventory and distribute its products effectively in accordance with the varying needs of its customers may result in weaker sales and have a material and adverse effect on the Group's business and financial performance.

Unexpected weather conditions could impact sales of the Group's fertiliser products

The Group's results may vary significantly owing to weather-related shifts in planting schedules and purchase patterns. Adverse weather conditions affecting the agricultural industry in the PRC, including but not limited to, floods or droughts, may delay or stop the planting of crops and application of fertiliser in areas impacted, which may have a significant effect on demand for the Group's fertiliser products. Weather can also have an adverse effect on crop yields, which lower the income of farmers and could impair their ability to pay for fertiliser products in future seasons.

The Group's business performance is heavily influenced by the supply and pricing of the Group's raw materials

The Group's cost of sales is heavily influenced by the prices of raw materials. The prices of raw materials depend on the global and PRC market demand and supply, which could have considerable influence on the Group's production costs. If the prices of raw materials increase significantly and the Group is not able to transfer such increase to the Group's customers in a short period or to purchase the raw materials of the same quality from alternative suppliers at competitive prices, the Group's profit margins may be reduced and its financial performance may be materially and adversely affected. The key raw materials the Group requires are coal, phosphorus and potassium. The Group's cost of coal accounted for approximately 54.9%, 55.7% and 49.4% of the Group's total cost of sales for the three years ended 31 December 2010, 2011 and 2012, respectively. Even though the price of coal, the Group's largest cost component in the fertiliser production process, decreased in 2012 from 2011, coal prices had increased significantly from 2008 to 2011, from an average of RMB1,080 per tonne for the year ended 31 December 2008, to an average of RMB1,501 per tonne for the six months ended 30 June 2011, and there is no assurance that the prices of coal will continue to decrease or even remain stable. Although the Group seeks to control its coal costs through maximising the efficiency of its systems and by maintaining long-term relationships with its suppliers so as to ensure a steady supply at a favourable price, there is no guarantee that the Group will be able to source adequate amounts of raw materials and energy from the Group's suppliers at acceptable prices.

The Group has no influence over pricing in its sale of urea because urea is highly commoditised

Urea is a commoditised product and the PRC urea market is highly fragmented. As a result, no individual urea producer in the PRC has influence over the market price of urea. The average selling price of urea in the PRC is correlated with international urea prices, prices of food products in the PRC, prices of key raw materials such as coal and natural gas and the overall supply and demand of urea in the PRC. As a result, the Group's ability to remain competitive relies significantly on its ability to seek well-priced raw materials and maintain cost-efficient production. If the Group is not able to maintain its production cost advantage, it may experience lower margins, which may materially and adversely affect the Group's sales and financial results.

Fierce competition in the fertiliser business may affect the Group's financial performance

The Group operates in a competitive industry. The Group competes with its competitors on pricing, sales volumes and goodwill through marketing and customer service. The PRC government has also been implementing a number of policies to encourage the industrialisation and consolidation of the fertiliser industry. Whilst the Group is the largest urea producer in Henan Province in 2012 in terms of production capacity, according to the CNCIC Report, there is no guarantee that the Group can retain its market share and remain competitive. The Group also strategically focuses its operations in Henan Province, and any increase in the number of competitors or the success of competitors in the region may affect the Group's sales. Any failure by the Group to compete effectively in the market may materially and adversely affect the Group's business performance, including its profitability.

The Group's production and distribution may be affected by various factors, including interruptions in electricity supply and rail transport and a breakdown of production facilities

The Group's production facilities rely heavily on a sufficient and uninterrupted supply of electricity to the Group's production plants. The Group currently purchases the majority of its electricity needs from the national grid and also has power generators which produce electricity internally for each of its production plants. Certain of the Group's production plants have in the past encountered and may in the future encounter power supply shortages owing to factors which are out of the Group's control, such as poor weather conditions, natural disasters or government regulations, resulting in the Group's production of fertiliser products being reduced or suspended. In the fourth quarter of 2010, the PRC government implemented an "energy-saving and emission-reduction" policy which resulted in power shortages for businesses in Henan Province. While the Group was not significantly impacted by the shortages in 2010 because it has its own power generators, any future shortage or interruption in the supply of electricity may adversely affect the Group's operations. Any interruption in electricity supply may disrupt and hence adversely affect the Group's operations at its production facilities.

The Group's production facilities and distribution activities rely on transportation networks for the supply of raw materials and the dispatch of finished products. There is also no assurance that accidents along the transportation networks will not occur, transportation workers will not strike or that the transportation networks will not have to suspend operations because of technical problems or other reasons. Any interruption in the operations of the relevant transport connections may require the Group to arrange alternative transportation and may disrupt the Group's production and distribution activities, which could materially and adversely affect the Group's business, financial condition and results of operations.

Additionally, the Group's production facilities may suffer from mechanical breakdown. Any such breakdown will impact production, which could materially and adversely affect the Group's business, financial condition and results of operations.

The delay or shutdown of operations at any of its production facilities as a result of any of the above factors or such other factors may have an adverse effect on the Group's business and financial condition and results of operations.

The Group processes and transports highly flammable substances

The Group processes and transports flammable and potentially harmful substances, including methanol. The Group's production processes are also potentially dangerous. The improper use of, or accidents involving, these substances could cause damage to property and the environment, be injurious to human health and/or potentially cause the disruption of the Group's operations and damage to the Group's reputation. If any fire or explosion occurs in the Group's production facilities and/or warehouse, the Group's business, financial condition, results of operations and prospects could be materially and adversely affected. Any injury to persons, damage to equipment or property or other disruption of the Group's ability to produce or distribute its products could result in a decrease in operating results and additional costs may be incurred to compensate any persons for injury sustained, or to replace or repair and insure any damaged assets, which could materially and adversely affect the Group's operation and financial performance.

The Group is exposed to risks arising from global economic and financial conditions

Owing to the global economic downturn and a concurrent decrease in consumer demand, the PRC has experienced a slowdown in its economic growth since the second half of 2008. As a result of the economic slowdown, factors such as less credit availability may have affected the ability of fertiliser distributors and farmers to purchase fertiliser, resulting in an oversupply of fertiliser products and a decrease in the selling price of fertiliser products. Further economic crises may subject the Group to similar price risks and may also affect the prices at which the Group purchases components from its suppliers. In addition, if suppliers to the Group are put into liquidation or cease operation, the Group will have to source its supplies from other companies, which may lead to delays and/or an increased cost of sales.

Although the PRC economy has recovered recently, it remains uncertain whether such recovery will be sustained in the long term. Any recurrence of a global financial crisis, which could potentially be sparked by the recent market volatility attributed to concerns over the economic conditions in the United States and several European countries, may cause a further slowdown in the PRC economy. Such changes in macroeconomic conditions have had, and may continue to have, an adverse impact on the Group's business and operations.

The Group's PRC expansion plans will require future financing and are subject to the risk of cost and time overruns

The Group's expansion plans, including the plan to establish fourth and fifth production plants in the PRC, are subject to a number of contingencies, including changes in laws and regulations, changes in market conditions, governmental action, delays in obtaining requisite licences, permits or approvals, construction delays, labour disputes, land acquisition, accidents, natural calamities and other factors. In addition, these plans require significant expenditure and, if the Group is unable to obtain the necessary funds for expansion, the Group's expansion plans may not proceed. The Group's proposed and future capital expenditure may be funded through a combination of external sources of debt, equity and internal cash accruals, including, without limitation, the issue of debt securities and convertible hybrid securities. Any resulting increase of the Group's debt leverage may increase the Group's interest expenses or require the Group to enter into financial covenants restricting the Group's flexibility to conduct its business. The gearing ratio of the Group (calculated as net debt divided by total capital plus net debt) increased from approximately 44.4% as at 31 December 2011 to approximately 50.8% as at 31 December 2012. Owing to various factors, including but not limited to changes in interest rates or other costs, or changes to borrowing or lending restrictions which could impact the Group's ability to obtain financing on acceptable terms or at all, the Group may not be able to finance its capital expenditure plans which would, in turn, adversely affect its business and financial prospects. There is also no assurance that the actual costs incurred, the production capacity added or time taken for implementation of these PRC expansion plans will not vary from the Group's original forecasts.

The Group is required to obtain certain approvals, licences and permits for its operations and there is no assurance that it will be able to do so which may have a material adverse impact on its business and operations

The Group requires various approvals, licences and permits for its businesses and is subject to a variety of PRC laws and regulations. However, there is no assurance that the Group could obtain or renew all relevant approvals, licences and permits required for its operations in the PRC. The Company's subsidiaries Xinjiang Xinlianxin Energy Chemical Co., Ltd. and Henan XLX Fertiliser have started construction on the Group's fourth and fifth production plants for which they have not yet obtained a building engineering planning permit or a construction permit. The Group is in the process of applying for the relevant permits but there is no assurance that the Group will be able to obtain such permits in time or at all. Pursuant to the Town and Country Planning Act《中華人民共和國城鄉規劃法》, companies with projects which have not obtained the project planning permit could be required by the urban planning department to (i) cease construction, (ii) (in the case where corrective measures can be taken) correct the breaches within a specified timeframe and face a fine ranging from 5% to 10% of the total construction costs, or (iii) (in the case where corrective measures cannot be taken) demolish unauthorised structures within a specified timeframe, confiscation of goods and illegal gains and a fine of up to 10% of construction costs. Separately, pursuant to the Construction Quality Management Regulations《建設工程質量管理條例》companies undertaking construction projects which do not have construction permits could be ordered to stop construction, correct the breaches and/or face a fine of up to 2% of the construction contract value.

Further, one of the Company's subsidiaries Tianli《瑪納斯天利煤業有限責任公司》has not obtained the coal manufacturing licence, safety production licence, qualification certification of coal mine director, and qualification certification of safety production of coal mine director and coal operation licence. Tianli has not begun to manufacture coal for the Group and the Group expects to obtain the required licences, certifications and permits before this occurs. However, there is no assurance that the Group will be able to obtain such permits in time or at all. Pursuant to the PRC laws and regulations, undertaking operations or manufacturing of coal without obtaining the coal operation licence or coal manufacturing licence will expose Tianli to cease production, confiscation of illegal gains and a fine ranging from 1 to 5 times of illegal gains. If Tianli cannot obtain the relevant licences, certifications or permits before it starts the coal manufacturing, it may be imposed with such penalties.

Henan XLX Fertiliser's compound fertiliser project with a production capacity of 300,000 tonnes per annum has not yet passed the fire control inspection acceptance test, failing which commencement of operation will expose Henan XLX Fertiliser to be subject to cessation of construction, cessation of operation or suspension of operation and business as well as a fine ranging from RMB30,000 to RMB300,000.

Any failure to comply with regulations in the PRC in a timely manner may have a material adverse effect on the Group's business, financial condition and results of operations.

The April 2012 Financial Information of the Group contained in this Offering Circular has not been audited or reviewed by the Group's independent auditors

The April 2012 Financial Information contained in this Offering Circular sets out certain financial information of the Group as of and for the four months ended 30 April 2012. The April 2012 Financial Information are based on the Company's internal management accounts for the relevant period, and has not been reviewed or audited by the Company's independent auditors. As the April 2012 Financial Information has not been reviewed or audited, they should not be relied upon by investors to provide the same quality associated with information that has been subject to an audit or a review. None of the Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisors makes any representation or warranty, express or implied, regarding the sufficiency of such consolidated financial results for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Group's financial condition and results of operations.

RISKS RELATING TO THE GROUP'S OPERATIONS IN THE PRC

The Group's operations may be affected by the departure of members of the Group's management team and failure to recruit and retain competent employees

The Group's success depends, to a significant extent, upon the leadership and contributions of its management team, comprising Mr. Liu and the rest of its executive directors and senior management, who are responsible for its overall corporate development and business strategies as well as implementing its business plans and driving its growth. The experience and contributions of the Group's management team are crucial to its success, and competition for such key personnel may be intense. Any departure of the members of the Group's management team could materially and adversely interrupt its business if the Group is unable to recruit suitable replacements with equivalent qualifications in a timely manner. In addition, the Group may lose business to the organisations that members of the Group's management team may join after leaving their positions in the Group.

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

The Group's production process may be disrupted by natural disasters, epidemics and strikes

The Group's production process may be disrupted by events, including, *inter alia*, natural disasters such as floods and fires, power failures, long periods of adverse weather, social unrest and strikes, which may cause substantial damage to the Group's production facilities and inventories and may result in operational disruptions. Where the Group is unable to repair damaged equipment or resume the production in a timely manner, the Group's operations and financial performance could be materially and adversely affected.

The Group's business could be materially and adversely affected by the effects of Severe Acute Respiratory Syndrome ("SARS"), avian influenza, Influenza A ("H1N1" or "swine flu"), the recent outbreak of the avian influenza A (H7N9) or another epidemic or outbreak. The outbreak of an infectious disease in Asia or elsewhere, together with any resulting restrictions on travel and/or imposition of quarantines, could adversely affect the Group's ability to run its production facilities, market its products and service new and existing customers. In addition, the Group's business operations could be disrupted if any of its employees are suspected of having SARS, avian influenza, swine flu or another infectious disease, since it could require the quarantine of some or all of the Group's employees and/or the shutting down of operations in order to disinfect its offices or production facilities. There is no assurance that any precautionary measures taken in the event of an outbreak of an infectious disease would be effective. This could adversely impact the Group's revenues and results of operations.

The Group may have insufficient insurance coverage in certain situations

Although the Group has obtained private insurance for the Group's employees, as required by PRC laws and regulations, as well as for certain of the Group's fixed assets, the Group's insurance may not be adequate to cover all potential liabilities. Many of the Group's 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 the Group is unable to obtain insurance coverage at a reasonable cost or at all. These risks could expose the Group to substantial liability for personal injury, wrongful death, product liability, property damage, pollution, disruption to the Group's operations and other environmental damages. Further, there is no assurance that insurance will be generally available to the Group in the future or, if available, that the premiums will not increase or remain commercially justifiable. If the Group incurs substantial liability and the insurance does not or is insufficient to cover the damages, the Group's production capacity will decrease and the Group's business, financial condition, results of operations and prospects may be materially and adversely affected.

In addition, the Group currently does not have insurance coverage against loss of key personnel, business interruption or product liability claims. If any of such events occurs, the Group's business and financial performance might also be materially and adversely affected.

Changes in the economic and political policies of the PRC government could have an adverse effect on overall economic growth in the PRC, which may adversely affect the Group's business

The Group's revenue is currently wholly derived from the Group's operations in the PRC. Accordingly, the Group's financial condition, results of operations and prospects depend to a significant extent on economic developments in the PRC. 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 30 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 in order to encourage economic growth and to guide the allocation of resources. The PRC government also exercises significant control over the PRC's economic growth through the allocation of resources, controlling the payment of foreign currency-denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies. While these reforms may benefit the overall PRC economy, not all of these policies will necessarily benefit the Group's business.

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 emphasising 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 the PRC 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. In addition, the PRC government continues to play a significant role in regulating the industry development by imposing relevant policies. Any future actions and policies adopted by the PRC government could materially affect the Chinese economy, which may adversely affect the Group's business.

The Group's business is subject to environmental, safety and health laws and regulations which may impact its production costs

The Group is subject to environmental, safety and health regulations in the PRC, which require the Group to incur costs to ensure its compliance with such regulations. The PRC government is moving towards more rigorous enforcement of applicable laws and regulations and more stringent environmental, safety and health standards. As a result, additional costs in the Group's production and operations may be incurred and the Group's budgeted spending in respect of regulatory compliance may not be sufficient. The Group may need to allocate additional funds for such purpose, which may materially and adversely affect the Group's operation and financial performance.

Any breach of or non-compliance with these PRC laws and regulations may result in the suspension, withdrawal or termination of business licences or permits, or the imposition of penalties, by the relevant authorities. Any suspension, withdrawal, termination or refusal to extend the Group's business licences or permits would cause the Group to cease production of certain or all of its products, which would adversely affect its business, financial condition, results of operations and prospects.

Some of the PRC government's reforms and measures may negatively impact the growth of credit availability that could have a material and adverse effect on the Group's business

Since late 2003, the PRC government has implemented a number of measures, such as increasing the People's Bank of China's statutory deposit reserve ratio and imposing commercial bank lending guidelines, which have had the effect of negatively impacting the growth of credit availability. In 2008 and 2009, in response to the global financial crisis, the PRC government relaxed such requirements but in 2010 began to tighten such requirements again, partly in response to the recovery in the growth of the PRC economy. These requirements may adversely affect the availability, terms and cost of borrowing in the future, including any financing necessary to fund the Group's capital expenditures. Any disruption in the Group's ability to renew existing credit facilities or obtain new borrowings on acceptable terms may adversely affect the Group's financial condition, results of operations and cash flows as the Group relies on bank borrowings for a portion of the Group's working capital and capital expenditure requirements.

The PRC legal system has inherent uncertainties that could materially and adversely affect the Group

The Group's business and operations in the PRC are subject to government rules and regulations. Any changes in such government regulations may have a negative impact on the Group's business. The PRC legal system is based on written statutes. Unlike under common law systems, decided legal cases have little value as precedents in subsequent legal proceedings. 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. These laws and regulations are relatively new and are often changing, and their interpretation and enforcement involve significant uncertainties that could limit the reliability of the Group's legal rights. The Company cannot predict the effects of future developments in the PRC legal system. The Group may be required in the future to procure additional permits, authorisations and approvals for the Group's existing and future operations, which may not be obtainable in a timely fashion or may not be obtainable at all. Any inability to obtain such permits or authorisations may have an adverse affect on the Group's financial condition and results of operations. For example, loans to or investments in the Company's PRC subsidiaries are subject to approval by, or registration with, relevant governmental authorities in the PRC. In respect of future capital contributions by the Company to its subsidiaries, the Company may not obtain the necessary government approvals on a timely basis or may not obtain the necessary government approvals at all. If the Company fails to receive such approvals, its ability to use the proceeds of the Notes and to capitalise the Group's operations in the PRC may be negatively affected, which could adversely affect the Group's liquidity and its ability to fund and expand its business.

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 Company may be unaware of the Group's violation of these policies and rules until some time later. Furthermore, while the Company has hired reputable PRC legal counsel and internal staff tasked with ensuring the Group is in compliance with PRC laws and regulations, the Company cannot guarantee that the Group is in compliance with all PRC laws and regulations that may apply to it. Breach of or non-compliance with PRC laws and regulations may result in the suspension, withdrawal or termination of the Group's business licences or permits, or the imposition of penalties, by the relevant authorities. Any suspension, withdrawal, termination or refusal to extend the Group's business licences or permits would cause the Group to cease production of certain or all of the Group's products, and this would adversely affect the Group's business, financial condition, results of operations and prospects.

The operations of the Group may be affected by rising inflation rates and costs of labour within the PRC

Inflation rates within the PRC have been on a sharp uptrend in recent years. The PRC government has taken numerous measures, including raising interest rates and curbing bank lending, to slow down economic growth and control price rises. Increasing inflationary rates are due to many factors beyond the Group's control, such as rising food prices, rising production and labour costs, high lending levels, PRC and foreign governmental policy and regulations, and movements in exchange rates and interest rates. It is impossible to accurately predict future inflationary trends. If inflation rates rise beyond the Group's expectations, the Group's production costs and other operational costs may become significantly higher than which the Group has anticipated for the future, and the Group may be unable to pass on any price increases to customers in amounts that are sufficient to cover its increasing production and operating costs. As a result, further inflationary pressures within the PRC may have a material adverse effect on the Group's business and financial condition and results of operations, as well as its liquidity and profitability. Compliance with relevant labour laws and regulations may also substantially increase the Group's operating cost and have a material adverse effect on the Group's financial condition or results of operations.

Governmental control of currency conversion may limit the Group's ability to utilise its revenues effectively

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. The Group receives the majority of its revenues in Renminbi. As a Singapore limited liability company, the Company may rely on dividend payments from its PRC subsidiaries in order to fund any cash and financing requirements the Company may have. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval from the State Administration on Foreign Exchange ("SAFE") by complying with certain procedural requirements. Therefore, the Group's PRC subsidiaries are able to pay dividends in foreign currencies to the Group without prior approval from SAFE. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses, such as the repayment of loans denominated in foreign currencies. This could affect the ability of the Group's PRC subsidiaries to convert Renminbi denominated funds into other currencies in order to comply with capital commitments of the Group. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents the Group from obtaining sufficient foreign currencies to satisfy the Group's foreign currency demands, the Group may not be able to satisfy its obligations under the Notes.

Under the Enterprise Income Tax Law, the Company may be classified as a "resident enterprise" of the PRC. Such classification could result in unfavourable tax consequences for the Company and its non-PRC investors

Under the Enterprise Income Tax Law ("EIT Law"), an enterprise established outside the PRC with a "de facto management body" within the PRC is deemed a "resident enterprise", meaning that it can be treated in a manner similar to a PRC enterprise for enterprise income tax purposes, although dividends paid from one resident enterprise to another may qualify as "tax-exempt income". The implementing rules of the EIT Law define "de facto management" as "substantial and overall management and control over the production and operations, personnel, accounting, and properties" of the enterprise. A circular issued by the State Administration of Taxation on 22 April 2009 provides that a foreign enterprise controlled by a PRC company or a PRC company group will be classified as a "resident enterprise" with a "de facto management body" located within the PRC if all of the following requirements are satisfied: (i) the senior management and core management departments in charge of daily operations are located mainly within the PRC; (ii) financial and human resources decisions are subject to determination or approval by persons or bodies in the PRC; (iii) major assets, accounting books, company seals and minutes and files of board and shareholders' meetings are located or kept within the PRC; and (iv) at least half of the enterprise's directors with voting rights or senior management reside within the PRC. A new circular, the Administrative Measures on the Income Tax of Resident Enterprises Established Offshore and Controlled by the PRC Entities (Trial Implementation), issued by the State Administration of Taxation on 27 July 2011, which became effective on 1 September 2011, further sets out the procedures to determine whether an offshore enterprise controlled by a PRC company or a PRC group shall be regarded as the resident enterprise and the relevant rules regarding tax registration, reporting and administration for such resident enterprises.

The Company is controlled by the PRC natural persons rather than the PRC company or group and is currently not treated as a PRC resident enterprise by the relevant tax authorities. However, since substantially all of the Company's management is currently based in China, the Company cannot assure that it will not be deemed as a "resident enterprise" under the EIT Law and, therefore, be subject to enterprise income tax at a rate of 25% on its global income in the future. If the Company is not considered to be a PRC resident enterprise for EIT Law purposes, the payment of interest on the Notes to the Company's overseas creditors will not be subject to PRC withholding tax.

Under the EIT Law and the implementation regulations thereunder, PRC withholding tax at a rate of 10% is normally applicable to PRC-sourced income of non-resident enterprises, subject to adjustment by applicable treaty. The EIT Law's implementation regulations further set forth that interest income is viewed as PRC-sourced income if the enterprise that pays interest is domiciled in the PRC. If the Company is deemed a PRC resident enterprise for tax purposes, interest paid to overseas creditors may be regarded as PRC-sourced and therefore be subject to PRC withholding tax at the rate of up to 10%. Similarly, any gain realised on the transfer of the Notes by such investors may also be subject to a 10% rate. However, it's not clear whether the gains any investor may realise from the transfer of the Notes shall be considered as income sourced in the PRC although we understand that the PRC tax authority has not collected tax on such gains in practice. PRC income tax if such gain is regarded as income derived from sources within the PRC.

The Group may be required to seek alternative premises for some of its production facilities, ancillary facilities or staff quarters on leased land as a result of missing title certificates or lack of necessary approvals.

As of the date of this Offering Circular, the Group leases collectively-owned land parcels in the PRC for use as production facilities, ancillary facilities, warehouses or staff quarters. For some of these parcels, the Group leases such properties from lessors who were not able to provide the relevant title ownership certificates or registration documents. As a result, there is uncertainty as to whether the relevant landlords have valid title as required to lease such lands and whether such land may be leased and used for non-agricultural purposes. The relevant landlords could not provide the legal documentation evidencing that such leases have been approved by the relevant local representatives and by the local land and resource authority as required under the rules and regulations of Henan Province governing collectively-owned land use rights. Therefore, the Group's leasehold interests under these agreements may not be protected by PRC laws and regulations. If the Group is required to relocate their operations in the affected properties, the Group's operations may be interrupted and the Group may incur additional costs as a result of such relocation.

There is no assurance that the Group will continue to receive the preferential tax treatment that it currently enjoys

The Company's subsidiaries in the PRC are subject to income tax at the rate of 25%. However, for the years ended 31 December 2009, 2010 and 2011, this exemption had been reduced so that Henan XLX Fertiliser was only entitled to a 50% reduction in income tax (i.e. a tax rate of 12.5%). In 2012, Henan XLX Fertiliser was awarded the New/High Tech Enterprise Award as recognition of its innovation and use of state-of-the-art equipment which brought it a tax concession of a lower income tax rate (i.e. 15%) for the year ended 31 December 2012 and for the year ending 31 December 2013. However there is no assurance that Henan XLX Fertiliser will continue to enjoy preferential tax treatment, in which case, the effective tax rate of the Group may increase, which may increase its income tax expenses and in turn decrease its net income.

The PRC legal system may provide limited legal recourse against the Group

The Group conducts substantially all of its operations in the PRC and substantially all of its assets are located in the PRC. In addition, the majority of the Group's directors and executive officers and some of the experts named in this Offering Circular reside within the PRC. As a result, it may not be possible to effect service of process outside the PRC upon these directors or executive officers or some of the experts named in this Offering Circular. Moreover, the Company's PRC legal advisers, Jingtian & Gongcheng, have advised the Group 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. As a result, prospective investors may experience difficulties in effecting service of legal process, enforcing foreign judgments or bringing original actions in the PRC based on foreign laws against the Group, the Company, the Company's management or any experts named in this Offering Circular.

Failure to comply with the SAFE regulations relating to registration of interests by PRC resident beneficial owners of the Company may adversely affect its business operations

On 21 October 2005, SAFE issued the Circular of the State Administration of Foreign Exchange on Foreign Exchange Issues Related to Equity Finance and Round-trip Investments by Domestic Residents through Offshore Special Purpose Vehicles (Hui Fa [2005] No. 75), or Circular No. 75, a public circular which became effective on 1 November 2005. Circular No. 75 requires PRC residents to register with their local SAFE branch before directly establishing or indirectly controlling an "offshore special purpose vehicle", or any entity outside the PRC, for the purpose of capital financing with assets or equity interest in an onshore enterprise in the PRC, and to go through the modification registration procedures after completing an investment in or acquisition of any operating subsidiaries in the PRC via the offshore special purpose vehicle, or as a "round-trip investment", which is referred to herein. In addition, any change of shareholding or any other material capital alternation in such offshore special purpose vehicle not involving a round-trip investment, such as a change in share capital or merger and acquisition, must be filed or registered within30 days from the date of change.

The relevant SAFE regulations apply retrospectively to direct or indirect investments made by PRC residents in offshore special purpose vehicles before Circular No. 75 came into effect. On 19 November 2012, SAFE promulgated Notice of the State Administration of Foreign Exchange on Further Improving and Adjusting the Foreign Exchange Administration Policies on Direct Investments (Hui Fa [2012] No. 59)《國家外匯管理局關於進一步改進和調整直接投資外匯管理政策的通知》, or Circular No. 59, which became effective on 17 December 2012. Circular No. 59 further clarifies the implementation and application of Circular No. 75 and specifies the procedures of the SAFE registrations required. According to Circular No. 59, any change of financing issues of offshore special purpose vehicles must be registered with SAFE within 30 days from the date that the first financial fund is remitted into the accounts of the offshore special purpose vehicles, and funds cannot be remitted into the PRC by means of investment or loan without the aforesaid SAFE registration.

In the event that a PRC resident with a direct or indirect stake in an offshore special purpose vehicle fails to make the required SAFE registration, the PRC subsidiaries of such offshore special purpose vehicle may be prohibited from distributing their profits to their offshore parent and from paying the offshore parent proceeds from any reduction in capital, share transfer or liquidation in respect of the PRC subsidiaries, and the offshore parent's ability to contribute additional capital or provide loans would be impaired. In addition, failure to comply with SAFE registration requirements as described above may also result in liability under PRC laws for evasion of applicable foreign exchange restrictions.

These regulations apply to the beneficial owners of the Company who are PRC residents. The beneficial owners of the Company who are known to be PRC residents have completed the registration with the relevant local SAFE branch for the establishment of the relevant offshore special purpose vehicle and the relevant financing activity. The beneficial owners of the Company are updating the registration in connection with the share transfer of one of the beneficial owners. The Company cannot guarantee that it could complete the updating registration as required. Further, there are no assurances that any or all of the beneficial owners of the Company who are PRC residents will continue to comply with relevant SAFE regulations. Further, there is no assurance that the Company can complete the SAFE registration in the case of any change to its financial condition, as required by Circular No. 59. Any failure or inability of the PRC resident beneficial owners to comply with the registration procedures may subject such PRC resident beneficial owners to certain fines and legal sanctions, restrict the cross-border investment activities of the Company or limit the ability of its subsidiaries incorporated in the PRC to distribute dividends or obtain foreign exchange-dominated loans to the Company.

RISKS RELATING TO THE NOTES

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the Notes and the Company's ability to source Renminbi outside the PRC to service the Notes

As a result of the restrictions by the PRC government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. Since February 2004, in accordance with arrangements between the PRC central government and the Hong Kong government, licensed banks in Hong Kong may offer limited Renminbi-denominated banking services to Hong Kong residents and specified business customers. The People's Bank of China ("PBOC"), the central bank of the PRC, has also established a Renminbi clearing and settlement system for participating banks in Hong Kong. On 19 July 2010, further amendments were made to the Settlement Agreement on the Clearing of RMB Business (the "Settlement Agreement") between the PBOC and Bank of China (Hong Kong) Limited (the "RMB Clearing Bank") to further expand the scope of Renminbi business for participating banks in Hong Kong. Pursuant to the revised arrangements, all corporations are allowed to open RMB accounts in Hong Kong; there is no longer any limit on the ability of corporations to convert Renminbi; and there will no longer be any restriction on the transfer of RMB funds between different accounts in Hong Kong.

The current size of Renminbi-denominated financial assets outside the PRC is limited. As of 30 April 2013, the total amount of Renminbi deposits held by institutions authorised to engage in RMB banking business in Hong Kong amounted to approximately RMB677,158 million (source: Hong Kong Monetary Authority Monthly Statistical Bulletin). Renminbi business participating banks do not have direct Renminbi liquidity support from the PBOC. The RMB Clearing Bank only has access to onshore liquidity support from the PBOC to square open positions of participating banks for limited types of transactions, including open positions resulting from conversion services for corporations relating to cross-border trade settlement and for individual customers with accounts in Hong Kong of up to RMB20,000 per day. The RMB Clearing Bank is not obliged to square for participating banks any open positions resulting form other foreign exchange transactions or conversion services and the participating banks will need to source Renminbi from the offshore market to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Agreement will not be terminated or amended in the future, which will have the effect of restricting the availability of Renminbi offshore. The limited availability of Renminbi outside of PRC may affect the liquidity of the Notes. To the extent the Company is required to source Renminbi in the offshore market in order to service the Notes, there is no assurance that the Company will be able to source such Renminbi on satisfactory terms, if at all.

The Renminbi is not freely convertible; there are significant restrictions on remittance of Renminbi into and outside the PRC

The Renminbi is not freely convertible at present. The PRC government continues to regulate conversion between the Renminbi and foreign currencies despite the significant reduction over the years by the PRC government of its control over routine foreign exchange transactions under current accounts. Participating banks in Hong Kong have been permitted to engage in the settlement of RMB trade transactions under a pilot scheme introduced in July 2009. This represents a current account activity. The pilot scheme was extended in June 2010 to cover 20 provinces and cities in the PRC and to make RMB trade and other current account item settlement available in all countries worldwide. It was further extended in August 2011 to cover all provinces and cities in the PRC. The Renminbi trade settlements under the pilot scheme have become one of the most significant sources of Renminbi funding in Hong Kong.

On 12 October 2011, MOFCOM promulgated the Circular on Issues in relation to Cross-border Renminbi Foreign Direct Investment (the "MOFCOM RMB FDI Circular"). Pursuant to the MOFCOM RMB FDI Circular, prior written consent from the appropriate office of MOFCOM and/or its local counterparts (depending on the size and the relevant industry of the investment) is required for Renminbi foreign direct investments (the "RMB FDI"). The MOFCOM RMB FDI Circular also requires that the proceeds of RMB FDI may not be used towards investment in securities, financial derivatives or entrustment loans in the PRC, except for investments in PRC domestic listed companies through private placements or share transfers by agreement. On 13 October 2011, Measures on Administration of Renminbi Settlement in relation to Foreign Direct Investment (the "PBOC RMB FDI Measures") issued by the PBOC set out operating procedures for PRC banks to handle Renminbi settlement relating to RMB FDI and borrowing by foreign invested enterprises of offshore Renminbi loans. Prior to the PBOC RMB FDI Measures, cross-border Renminbi settlement for RMB FDI required approvals from the PBOC on a case-by-case basis. The new rules replace the PBOC approval requirement with a less onerous post-event registration and filing requirement. Under the new rules, foreign invested enterprises (whether established or acquired by foreign investors) need to (i) register their corporate information after the completion of an RMB FDI transaction, and (ii) make post-event registration or filing with the PBOC of any changes in registration information or in the event of increase or decrease of registered capital, equity transfer or replacement, merger or acquisition.

As the above measures and circulars are still relatively new, how they will be applied in practice still remain subject to the interpretation by the relevant PRC authorities.

There is no assurance that the PRC government will continue to gradually liberalise control over cross-border Renminbi remittances in the future, that the pilot scheme introduced in July 2009 will not be discontinued or that new PRC regulations will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or outside the PRC. In the event that funds cannot be repatriated outside China in Renminbi to service the Notes, the Company will need to source Renminbi offshore, and its ability to do so will be subject to the overall availability of Renminbi outside the PRC.

PRC regulations of investment and loans by offshore holding companies to PRC entities may delay or prevent the Company from using the proceeds of the offering of the Notes to make additional capital contributions or loans to PRC subsidiaries

Any capital contributions or loans the Company, as an offshore entity, makes to PRC subsidiaries, including the proceeds of the offering of the Notes, are subject to PRC regulations. The aggregate amount of short, medium and long-term non-RMB loans and RMB loans guaranteed by foreign institutions must be limited to the difference between the total investment amount and the registered capital of the relevant PRC subsidiary as approved by the relevant authority. PRC subsidiaries of the Group may accept foreign loans as long as the total sum of these loans remains within the permitted level. The Company cannot assure investors that it will be able to obtain further approvals to lend or contribute the remaining proceeds of the Offering to its PRC subsidiaries on a timely basis or at all. If the Company fails to obtain such approvals, its ability to capitalise the relevant PRC subsidiaries, fund its operations or utilise the proceeds of the Offering in the manner described in the section of this Offering Circular entitled "Use of Proceeds" may be negatively affected, which could in turn adversely affect the liquidity of the relevant PRC subsidiaries, the Group's investment activities, results of operations, financial condition and prospects.

The Notes will be effectively subordinated to the existing and future secured indebtedness of the Company and structurally subordinated to liabilities and obligations of its subsidiaries

The Notes will be unsecured and unsubordinated obligations of the Company and will rank equally in terms of rights of payment with all of its existing and future unsecured and unsubordinated obligations. The Notes will be effectively subordinated to all of the existing and future secured indebtedness of the Company, to the extent of the value of the assets securing such indebtedness and to the extent that such assets are not extended to the Notes under the Negative Pledge.

The Company is primarily a holding company and its ability to make payments in respect of the Notes depends largely upon the receipt of dividends, distributions, interests or advances from its subsidiaries. The ability of such subsidiaries to pay dividends and other amounts to the Company may be subject to their profitability and to applicable laws. Payments under the Notes are structurally subordinated to all existing and future liabilities and obligations of such subsidiaries. Claims of creditors of such companies will have priority as to the assets of such companies over the Company and its creditors, including holders of the Notes.

Investment in the Notes is subject to exchange rate risks

The value of the Renminbi against the Hong Kong dollar and other foreign currencies fluctuates and is affected by changes in the PRC, by international political and economic conditions and by many other factors. All payments of interest and principal will be made with respect to the Notes in Renminbi. As a result, the value of these Renminbi payments in Hong Kong dollar terms may vary with the prevailing exchange rates in the marketplace. For example, when an investor buys the Notes, he may need to convert Hong Kong dollars to Renminbi at the exchange rate available at that time. If the value of Renminbi depreciates against the Hong Kong dollar between then and when the Company pays back the principal of the Notes in Renminbi at maturity, the value of the investment in Hong Kong dollar (or other relevant currency) terms will have declined.

The investment in the Notes is subject to interest rate risks

The PRC government has gradually liberalised the regulation of interest rates in recent years. Further liberation may increase interest rate volatility. The Notes will carry a fixed interest rate. Consequently, the trading price of the Notes will vary with the fluctuations in Renminbi interest rates. If a Noteholder tries to sell such Notes before their maturity, he may receive an offer that is less than the Noteholder’s investment.

A trading market for the Notes may not develop and there are restrictions on resales of the Notes

Approval-in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. However, approval-in-principle is not to be taken as an indication of the merits of the Notes. There is no assurance as to the liquidity of the Notes or that an active trading market will develop. If such a market were to develop, the Notes could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group’s operations and the market for similar securities. It is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained. The Stabilising Manager is not obliged to make a market in the Notes and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Stabilising Manager. In addition, there are various selling restrictions relating to the Notes which may be applicable in various jurisdictions. The Notes have not been and will not be registered under the Securities Act. The Notes may not be offered, sold or resold in any jurisdiction unless they are registered or sold pursuant to an exemption from such registration.

The liquidity and price of the Notes following the offering may be volatile

The price and trading volume of the Notes may be highly volatile. Factors such as variations in the revenues of the Company, earnings and cash flows and proposals of new investments, strategic alliances and/or acquisitions, interest rates and fluctuations in prices for comparable companies could cause the price of the Notes to change. Any such developments may result in large and sudden changes in the volume and price at which the Notes will trade. There is no assurance that these developments will not occur in the future.

The Notes are redeemable in the event of certain withholding taxes being applicable

No assurances are made by the Company as to whether or not payments on the Notes may be made without withholding taxes or deductions applying from the Issue Date on account of any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within, *inter alia*, the PRC (or any authority therein or thereof having power to tax). Although pursuant to the Terms and Conditions of the Notes the Company is required to gross up payments on account of any such withholding taxes or deductions, the Company also has the right to redeem the Notes at any time in the event the Company has or will become obliged to pay additional amounts on account of any existing or future withholding or deduction for any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within, *inter alia*, the PRC (or any authority therein or thereof having power to tax).

Payments for the Notes will only be made to investors in the manner specified in the Notes

All payments to investors in respect of the Notes will be made solely: (i) when the Notes are represented by a global certificate, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing CMU rules and procedures or (ii) when the Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and regulations. The Company is not required to make payment by any other means, including in any other currency or by transfer to a bank account in the PRC.

The Company may not be able to repurchase the Notes upon the due date for redemption thereof

The Company may, and at maturity will, be required to redeem all of the Notes. If such an event were to occur, the Company may not have sufficient cash on hand and may not be able to arrange financing to redeem the Notes in time, or on acceptable terms, or at all. The ability to redeem the Notes in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Notes by the Company would constitute an event of default under the Notes, which may also constitute a default under the terms of other indebtedness of the Company.

If the Company is unable to comply with the restrictions and covenants in its debt agreements, or the Trust Deed governing the Notes, there could be a default under the terms of these agreements, or the Trust Deed governing the Notes, which could cause repayment of its debt to be accelerated

If the Company is unable to comply with the restrictions and covenants in the Trust Deed governing the Notes, or the current or future debt obligations and other agreements of the Company, there could be a default under the terms of these agreements. In the event of a default under these agreements, the holders of the debt could terminate their commitments to lend to the Company, accelerate repayment of the debt, declare all amounts borrowed due and payable or terminate the agreements, as the case may be. Furthermore, some of the debt agreements of the Company, including the Trust Deed governing the Notes, contain cross-acceleration or cross-default provisions. As a result, the default by the Company under one debt agreement may cause the acceleration of repayment of debt, including the Notes, or result in a default under other debt agreements.

The Company may issue additional Notes in the future

The Company may, from time to time, and without prior consultation of the holders of the Notes, create and issue further Notes or otherwise raise additional capital through such means and in such manner as it may consider necessary. See "Terms and Conditions of the Notes — Further Issues". There is no assurance that such future issuance or capital raising activity will not adversely affect the market price of the Notes.

The Trustee may request the Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction

In certain circumstances, the Trustee may require the Noteholders to provide an indemnity and/or security and/or pre-funding to its satisfaction before it takes actions on behalf of the Noteholders. The Trustee may decline to take any such actions if it is not indemnified and/or secured and/or pre-funded to its satisfaction. Negotiating and agreeing to an indemnity and/or security and/or pre-funding can be a lengthy process and may impact on when such actions can be taken. Further, where there is uncertainty or dispute as to the applicable laws or regulations, the Trustee may not take certain actions in relation to the Notes not withstanding the provision of an indemnity and/or security and/or prefunding and it will be for the Noteholders to take such actions directly.

TERMS AND CONDITIONS OF THE NOTES

The following terms and conditions of the Notes (subject to amendment and except for the sentences in italics) will be endorsed on the Definitive Certificates issued in respect of the Notes.

The CNY250,000,000 aggregate principal amount of 8.50 per cent. notes due 2015 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 17 and forming a single series therewith) of China XLX Fertiliser Ltd. (the "**Issuer**") are subject to, and have the benefit of, a trust deed dated on or about 6 August 2013 (as amended or supplemented from time to time, the "**Trust Deed**") between the Issuer and Citicorp International Limited as trustee (the "**Trustee**", which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated on or about 6 August 2013 (as amended or supplemented from time to time, the "**Agency Agreement**") among the Issuer, Citicorp International Limited as principal paying agent, registrar, CMU lodging agent and transfer agent (the "**Principal Paying Agent**", the "**Registrar**", the "**CMU Lodging Agent**", and the "**Transfer Agent**", respectively) and the Trustee. References herein to the "**Agents**" are to the Principal Paying Agent, the Registrar, the Transfer Agent and the CMU Lodging Agent, and shall, where applicable, also include the Singapore Agent (as defined in Condition 14), and any respective successor agent appointed from time to time in connection with the Notes. Certain provisions of these terms and conditions (the "**Conditions**") are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The holders of the Notes (the "**Noteholders**") are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof at 56/F, One Island East, 18 Westlands Road, Island East, Hong Kong, and at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial specified offices of which are set out below. The issue of the Notes was authorised by a resolution of the Board of Directors of the Issuer passed on 12 June 2013.

1. **Form, Denomination and Title**

   (a) **Form and denomination**: The Notes are issued in registered form, without coupons attached, in the denomination of CNY1,000,000 each and in integral multiples of CNY100,000 in excess thereof. A certificate (each, a "**Definitive Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Definitive Certificate will be numbered serially with an identifying number which will be recorded on the relevant Definitive Certificate and in the register of Noteholders (the "**Register**") which the Issuer will procure to be kept by the Registrar.

   *Upon issue, the Notes will be represented by a global certificate (the "**Global Certificate**") substantially in the form scheduled to the Trust Deed. The Global Certificate will initially be registered in the name of, and lodged with a sub-custodian for, the Hong Kong Monetary Authority as operator (the "**Operator**") of the Central Moneymarkets Unit Service ("**CMU**"). These Conditions are modified by certain provisions contained in the Global Certificate. See "The Global Certificate".*

   (b) **Title**: Title to the Notes will pass only by transfer and registration of title in the Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on (other than the endorsed form of transfer), or the theft or loss of, the Definitive Certificate issued in respect of it), and no Person (as defined in Condition 5(b)) shall be liable for so treating the holder. In these Conditions, "**holder of the Notes**", "**holder**" and "**Noteholder**" in relation to a Note shall mean the Person in whose name a Note is registered in the Register (or in the case of a joint holding, the first name thereof).

2. **Status and Guarantee**

(a) Status of the Notes:

The Notes constitute direct, unconditional, unsubordinated and (subject to Condition 5(a)) unsecured obligations of the Issuer which will at all times rank *pari passu* and without any preference among themselves, and at least equally with all other outstanding unsecured and unsubordinated obligations of the Issuer, present and future, save for such exceptions as may be provided by applicable laws relating to creditors' rights.

(b) Guarantee:

As of the Closing Date, the Issuer does not have any Subsidiary (as defined below) that is not organised under the laws of the PRC and there is no initial Subsidiary Guarantor (as defined below) on the Closing Date. The Issuer will cause each of its future Subsidiaries (other than the Subsidiaries organised under the laws of the PRC) as soon as practicable, and in any event within 14 days after it becomes a Subsidiary which does not constitute a Permitted Person, to execute and deliver to the Trustee a supplemental trust deed to the Trust Deed in accordance with the terms of the Trust Deed, pursuant to which such Subsidiary will, jointly and severally with any then existing Subsidiary Guarantors (as defined below), guarantee the due payment in full of all sums expressed to be payable by the Issuer under the Trust Deed and the Notes (the "**Guarantee**"). Each Subsidiary of the Issuer that guarantees the Notes after the Closing Date is referred to as a "**Future Subsidiary Guarantor**" and, upon execution of the applicable supplemental trust deed, will be a "**Subsidiary Guarantor**". For the avoidance of doubt, for so long as a Subsidiary of the Issuer constitutes a Permitted Person, the Issuer shall not be under any obligation to cause such Subsidiary to become a Subsidiary Guarantor.

The Guarantee (if given) will constitute direct, unconditional, unsubordinated and (subject to Condition 5(a)) unsecured obligations of such Subsidiary Guarantor which will at all times rank *pari passu* and without any preference among themselves, with all other outstanding unsecured and unsubordinated obligations of such Subsidiary Guarantor, present and future, save for such exceptions as may be provided by applicable laws relating to creditors' rights.

3. **Release of Subsidiary Guarantor**

A Subsidiary Guarantor may be released from the guarantee on occurrence of any of the following events:

(i) if each of the following conditions is met:

(A) no Event of Default or Potential Event of Default (as defined in the Trust Deed) shall have occurred and be continuing at the time of or immediately after giving effect to such release;

(B) neither the Issuer nor any of its Subsidiaries or affiliates provides credit support for any Financial Indebtedness of such Subsidiary Guarantor; and

(C) such Subsidiary Guarantor constitutes a Permitted Person; or

(ii) upon repayment in full of the Notes; or

(iii) if approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

(iv) in the case where a Subsidiary Guarantor does not constitute a Permitted Person (in which case, Condition 7(d) (*Redemption for Release of Subsidiary Guarantor*) shall apply following such release), if each of the following conditions is met:

(A) no Event of Default or Potential Event of Default (as defined in the Trust Deed) shall have occurred and be continuing at the time of or after giving effect to such release; and

(B) neither the Issuer nor any of its Subsidiaries or affiliates provides credit support for any Financial Indebtedness of such Subsidiary Guarantor; or

(v) upon the sale of such percentage of the assets or Voting Stock of a Subsidiary Guarantor such that the Subsidiary Guarantor ceases to be a Subsidiary (each a "**Sale**") in compliance with the terms of the Trust Deed including that:

(A) no Event of Default or Potential Event of Default shall have occurred or be continuing at the time of or after giving effect to such Sale;

(B) the proceeds of such Sale are at least equal to the Fair Market Value (as defined in Condition 5(b)) of the assets or Voting Stock of the relevant Subsidiary Guarantor sold or disposed of;

(C) such Subsidiary Guarantor constitutes a Permitted Person;

(D) at least 75% of the consideration received from such Sale consists of cash, Cash Equivalent Investments or Replacement Assets),

and provided that such Subsidiary Guarantor is simultaneously released from its obligations in respect of any of the Issuer's other Financial Indebtedness or any Financial Indebtedness of any other Subsidiary.

Within 360 days after the completion of a Sale, the Issuer or applicable Subsidiary shall apply the proceeds from such Sale to repay the Financial Indebtedness of the Issuer or purchase Replacement Assets. Any proceeds from such Sale that are not applied towards the repayment of Financial Indebtedness of the Issuer or the purchase of Replacement Assets are referred to as "**Excess Proceeds**", such Excess Proceeds to be held by the Issuer in cash or Cash Equivalent Investments (as defined in Condition 5(b)) until applied towards the redemption of the Notes in accordance with Condition 7(c) (a "**Redemption for Sale Event**").

The Issuer shall give notice to the Noteholders and the Trustee in accordance with Condition 18 (*Notices*) by not later than 14 days following (aa) the agreement for, and the completion of, a Sale and (bb) the occurrence of a Redemption for Sale Event.

No release of a Subsidiary Guarantor from the Guarantee of the Notes pursuant to Conditions 3(i), 3(iii) and 3(iv) shall be effective against the Trustee or the Noteholders until the Issuer has delivered to the Trustee an Officers' Certificate, with respect to matters of fact, and an Opinion of Counsel, with respect to matters of law, each stating, to the reasonable satisfaction of the Trustee, that all requirements relating to such release have been complied with and such release is authorised and permitted by the Trust Deed.

"**Group**" means the Issuer and its Subsidiaries.

"**Officers' Certificate**" means a certificate signed by two Officers.

"**Officer**" means one of the executive officers of the Issuer or in the case of a Subsidiary Guarantor, one of the directors or officers of such Subsidiary Guarantor, as the case may be.

"**Opinion of Counsel**" means a written opinion from legal counsel who is acceptable to the Trustee and is in a form and substance satisfactory to the Trustee.

"**Permitted Person**" means, as at any time, any Subsidiary (other than a Subsidiary that is organised under the laws of the PRC) together with all other Permitted Persons at the relevant time which have an aggregate Consolidated Tangible Net Worth (as defined in Condition 5(b)) that constitutes 30 per cent. or less of the Consolidated Tangible Net Worth of the Group. For purposes of calculating Consolidated Tangible Net Worth for the definition of "**Permitted Person**":

(i) the Consolidated Tangible Net Worth of the Group at any time shall be determined by reference to the Consolidated Tangible Net Worth of the Group as disclosed in the audited (or, as the case may be, unaudited) consolidated balance sheet and income statements of the Issuer as at the end of the immediately preceding Relevant Period;

(ii) the Consolidated Tangible Net Worth of all Permitted Persons shall be aggregated (without double counting, where a Permitted Person is itself a Subsidiary of another Permitted Person) and shall be determined by reference to the Consolidated Tangible Net Worth of the Permitted Person (consolidated as appropriate if the Permitted Person itself has Subsidiaries) as disclosed in their respective audited (or, as the case may be, unaudited) consolidated balance sheet and income statements of the Issuer as at the end of the immediately preceding Relevant Period (or pro-forma financial statements if the Permitted Person is not required to prepare any financial statements or consolidated financial statements, which shall be prepared on a basis consistent with the financial statements of the Group).

"**Replacement Assets**" means, on any date, property or assets of a nature or type or that are used in a business which is the same as or related or ancillary or complementary to any of the businesses of the Group (a "**Permitted Business**"), including the shares of any Person holding such property or assets that is primarily engaged in a Permitted Business and will, upon the acquisition by the Issuer or its Subsidiaries of such shares, become a Subsidiary.

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose management and policies the first Person directs, has the power to direct, or cause the direction, whether by ownership of share capital, contract, the power to appoint or remove a majority of members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person, and, for the avoidance of doubt, does not mean any corporation, association or other entity of which between (and including) 20 per cent. and (but excluding) 50 per cent. of the voting rights is owned, directly or indirectly, by the Issuer or a Subsidiary or any corporation, association or other entity which is treated as a "jointly controlled entity" in accordance with GAAP.

"**Voting Stock**" means, with respect to any Person, the issued share capital of any class or kind ordinarily having the power to vote for the election of directors, managers or other voting members of the governing body of such Person.

4. **Transfers of Notes and Issue of Definitive Certificates**

(a) **Register**: The Issuer will cause the Register to be kept at the specified office of the Registrar (which shall be outside the United Kingdom in all circumstances) and in accordance with the terms of the Agency Agreement, on which shall be entered the names and addresses of the holders of the Notes and the particulars of the Notes held by them and of all transfers of the Notes. Each Noteholder shall be entitled to receive only one Definitive Certificate in respect of its entire holding of Notes.

(b) **Transfers**: Subject to the Agency Agreement and Conditions 4(e) and 4(f) herein, a Note may be transferred by delivery of the Definitive Certificate issued in respect of that Note, with the form of transfer endorsed on such Definitive Certificate duly completed and signed by the holder or its attorney duly authorised in writing, to the specified office of the Registrar or the Transfer Agent. No transfer of title to a Note will be valid unless and until entered on the Register.

Transfers of interests in the Notes evidenced by the Global Certificate will be effected in accordance with the rules and procedures for the time being of the relevant clearing system.

(c) **Delivery of new Definitive Certificates**: Each new Definitive Certificate to be issued upon a transfer of Notes will, within five business days (as defined below) of receipt by the Registrar or, as the case may be, any Transfer Agent of the Definitive Certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Notes (but free of charge to the holder and at the Issuer's expense (failing which the Subsidiary Guarantors' expense)) to the address specified in the form of transfer. The form of transfer is available at the specified offices of the Transfer Agent.

Except in limited circumstances described herein (see " The Global Certificate"), owners of interests in the Notes will not be entitled to receive physical delivery of the Definitive Certificates.

Where only part of a principal amount of the Notes (being that of one or more Notes) in respect of which a Definitive Certificate is issued is to be transferred or exchanged, a new Definitive Certificate in respect of the Notes not so transferred or exchanged will, within five business days of delivery of the original Definitive Certificate to the Registrar or the Transfer Agent, be made available for collection at the specified office of the Registrar or such Transfer Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred or exchanged (but free of charge to the holder and at the Issuer's expense (failing which the Subsidiary Guarantors' expense)) to the address of such holder appearing on the Register.

In this Condition 4, "**business day**" means a day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the Registrar or (as the case may be) the Transfer Agent with whom a Definitive Certificate is deposited in connection with a transfer or exchange is located.

(d) **Formalities free of charge**: Registration of a transfer of Notes and issuance of new Definitive Certificates will be effected without charge by or on behalf of the Issuer or any Agent, but upon (i) payment (or the giving of such indemnity or security as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer; (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the Person making the application; and (iii) the relevant Agent being satisfied that the regulations concerning transfer of Notes have been complied with.

(e) **Closed periods**: No Noteholder may require the transfer of a Note to be registered during the period of (i) seven Payment Business Days (as defined in Condition 8(f)) ending on (and including) the due date for any payment of principal in respect of that Note, (ii) during the period of ten days ending on (and including) any Interest Record Date (as defined in Condition 8(a)) and (iii) during the period of seven days ending on (and including) any date of redemption pursuant to Condition 7(b)-(e).

(f) **Regulations**: All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Noteholder and at the Issuer's expense (failing which the Subsidiary Guarantors' expense)) by the Registrar to any Noteholder upon request and is available at the specified offices of the Transfer Agent or the Registrar.

5. **Covenants and Undertakings**

(a) ***Negative Pledge***

So long as any Note remains outstanding (as defined in the Trust Deed), the Issuer will not, and will procure that no Subsidiary of the Issuer will, create or permit to subsist, any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of its undertaking, assets or revenues, present or future, to secure any Investment Securities (as defined below) or to secure any guarantee of, or indemnity in respect of, any Investment Securities unless, at the same time or prior thereto, the Issuer's obligations under the Notes and the Trust Deed (a) are secured equally and rateably therewith, or (b) have the benefit of such other security, guarantee, indemnity or other arrangement as the Trustee in its absolute discretion may deem to be not materially less beneficial to the Noteholders or as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders.

(b) ***Financial Covenants***

(1) For so long as any Note remains outstanding, the Issuer shall not directly or indirectly permit:

(i) the Consolidated Tangible Net Worth of the Group as at the end of any Relevant Period to be less than RMB1.8 billion;

(ii) the Maximum Leverage Ratio to exceed 1.5 to 1.0 as at the end of first and second Relevant Period after the Closing Date or to exceed 1.25 to 1.0 as at the end of each Relevant Period thereafter; and

(iii) the Dividend with respect to any fiscal year to be more than 50% of Net Profit After Tax per Annum with respect to the same fiscal year.

(2) Limitation on Incurrence of Financial Indebtedness

(a) the Issuer shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, incur any Financial Indebtedness, provided, however, that the Issuer and any Subsidiary may incur Financial Indebtedness, in each case if, after giving effect to the incurrence of such Financial Indebtedness and the receipt and application of the proceeds therefrom, (x) no Event of Default has or would have occurred and is or would be continuing and (y) the EBITDA Coverage Ratio would have been at least 2.5 to 1.0.

(b) The limitations set forth in this Condition 5(b)(2)(a) shall not apply to:

(i) the Incurrence by the Issuer and any Subsidiary Guarantors of Financial Indebtedness represented by the Notes (excluding any future issuances of additional Notes) and any Guarantees, as applicable;

(ii) Financial Indebtedness of the Issuer and its Subsidiaries existing on the Closing Date;

(iii) Financial Indebtedness of the Issuer or any Subsidiary used by the Issuer or any Subsidiary for working capital and capital expenditure; *provided that* and only to the extent that the sum of the aggregate principal amount outstanding of all such Financial Indebtedness permitted does not exceed 20% of the total consolidated assets of the Group measured in accordance with GAAP as of the last date of the most recent fiscal period for which consolidated financial statements of the Group (which the Issuer shall use its best efforts to compile in a timely manner) are available (which may be internal consolidated financial statements);

(iv) Financial Indebtedness of the Issuer or any Subsidiary of the Issuer not otherwise permitted hereunder in an aggregate principal amount which, on the date it is Incurred when aggregated with the principal amount or liquidation preference of all other Financial Indebtedness then outstanding and Incurred pursuant to this clause (iv), does not exceed RMB30 million at any one time outstanding;

(v) the Incurrence by the Issuer or any of its Subsidiaries of Financial Indebtedness which serves to refund, refinance or defease any Financial Indebtedness as permitted under the first paragraph of this covenant and clauses (i), (ii), (iii), and (iv), including any Financial Indebtedness Incurred to pay premiums and fees in connection therewith ("**Refinancing Indebtedness**") prior to its respective maturity; provided, however, that such Refinancing Indebtedness:

(1) has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is Incurred which is not less than the remaining Weighted Average Life to Maturity of the Financial Indebtedness being refunded or refinanced;

(2) has a Stated Maturity which is no earlier than the earlier of (x) the Stated Maturity of the Financial Indebtedness being refunded or refinanced or (y) at least 91 days later than the maturity date of the Notes;

(3) to the extent such Refinancing Indebtedness refinances (a) Financial Indebtedness that is *pari passu* with the Notes or the Guarantee of such Subsidiary Guarantor, as applicable, such Refinancing Indebtedness is expressed to be made *pari passu* with, or subordinate in right of payment, to the Notes or the Guarantee of such Subsidiary Guarantor, as applicable; or (b) Financial Indebtedness that is subordinated in right of payment to the Notes or the Guarantee of such Subsidiary, as applicable, such Refinancing Indebtedness is expressly made subordinate to the Notes or the Guarantee of such Subsidiary, as applicable;

(4) is Incurred in an aggregate principal amount (or if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal amount (or if issued with original issue discount, the aggregate accreted value) then outstanding of the Financial Indebtedness being refinanced plus premium and fees Incurred in connection with such refinancing;

provided, further, that subclauses (1) and (2) of this Condition 5(b)(2)(b)(v) shall not apply to any refunding, refinancing or defeasance of (A) the Notes or (B) any secured Financial Indebtedness;

(c) For purposes of determining compliance with this Condition 5(b)(2), in the event that an item of Financial Indebtedness meets the criteria of more than one type of Financial Indebtedness described in Condition 5(b)(2)(b), or of Financial Indebtedness described in the proviso in Condition 5(b)(2)(a) and one or more types of Financial Indebtedness described in Condition 5(b)(2)(b), the Issuer, in its sole discretion, shall classify, and from time to time may reclassify, such item of Financial Indebtedness and only be required to include the amount of such Financial Indebtedness as one of such types.

The financial covenants set out in this Condition shall be calculated in accordance with GAAP and tested by reference to the audited (or, as the case may be, unaudited) consolidated balance sheet and income statements of the Issuer as at the end of the Relevant Period.

The Trust Deed does not oblige the Trustee to monitor compliance by the Issuer with the Conditions but it does oblige the Issuer to furnish the Trustee with a Certificate of Compliance (as defined in the Trust Deed), on which the Trustee may rely as to such compliance.

In these Conditions:

(i) "**Borrowings**" means, at any time, the outstanding principal of moneys borrowed;

(ii) "**Cash**" means any credit balance on any deposit, savings, current or other account, and any cash in hand, of any member of the Group or to which any member of the Group is beneficially entitled and which is:

(A) freely withdrawable on demand or subject to time deposit arrangements that can be terminated at any time; and

(B) not subject to any Security (other than any Security granted pursuant to the relevant account bank's standard terms of business);

save that the deposit with a commercial bank of the CNY net proceeds of the Notes for the purposes of drawing funds in an alternative currency against such deposit shall be included in the definition of Cash.

(iii) "**Cash Dividend**" means (a) any Dividend which is to be paid in cash and (b) any Dividend determined to be a Cash Dividend pursuant to the definition of "Dividend";

(iv) "**Cash Equivalent Investments**" means:

(A) securities with a maturity of less than 12 months from the date of acquisition issued or fully guaranteed or fully insured by the Government of the United States or any member state of the European Union which is rated at least A-1 by Standard & Poor's Ratings Group or P-1 by Moody's Investors Service, Inc.;

(B) commercial paper or other debt securities issued by an issuer rated at least A-1 by Standard & Poor's Ratings Group or P-1 by Moody's Investors Service, Inc. and with a maturity of less than 12 months; and

(C) certificates of deposit or time deposits of any commercial bank (which has outstanding debt securities rated as referred to in paragraph (B) above) and with a maturity of less than three months,

in each case not subject to any Security, denominated and payable in freely transferrable and freely convertible currency and the proceeds of which are capable of being remitted to a member of the Group.

(v) "**Capital Stock**" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all classes of partnership interests in a partnership, any and all membership interests in a limited liability company, any and all other equivalent ownership interests in a Person and any and all warrants, rights or options to purchase any of the foregoing;

(vi) "**CNY**" denotes the lawful currency of the PRC;

(vii) "**Consolidated EBITDA**" means, at any time and in respect of the Issuer, the aggregate of the amount of: (i) profit before tax, (ii) finance costs and (iii) depreciation and amortization, each as set forth in the consolidated financial statements of the Group at such time in accordance with GAAP;

(viii) "**Consolidated Fixed Charge**" means, for any Relevant Period, the aggregate amount of the accrued interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of Borrowings whether paid, payable or capitalised by any member of the Group in respect of that Relevant Period;

(A) excluding any such obligations to any member of the Group;

(B) including the interest element of leasing and hiring purchase payments;

(C) including any accrued commission, fees, discounts and other finance payments payable by any member of the Group under any interest rate hedging arrangement; and

(D) deducting any accrued commission, fees, discounts and other finance payments owing to any member of the Group under any interest rate hedging instrument;

in each case without double counting so that no amount shall be included or excluded more than once.

(ix) "**Consolidated Net Borrowings**" means the aggregate principal amount of all Financial Indebtedness of the Group at such date (other than Financial Indebtedness (a) to the extent that such payment obligations are not classified as borrowings under GAAP and (b) in respect of any Financial Indebtedness between members of the Group) less the Cash and Cash Equivalent Investments held by any member of the Group at that time;

(x) "**Consolidated Tangible Net Worth**" means, in respect of any entity, at any time, the total stockholder's equity, less any noncontrolling interest, less any relevant statutory reserve fund, of such entity and its consolidated subsidiaries (if such entity itself has subsidiaries) in each case as reported by such entity in its consolidated financial statements (as applicable);

(xi) "**Control**" means (a) the acquisition or control of more than 50 per cent. of the Voting Rights of the issued share capital of the Issuer or (b) the right to appoint and/or remove all or the majority of the members of the Board of Directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

(xii) "**Dividend**" means any dividend or distribution of cash or other property or assets or evidences of the Issuer's indebtedness, whenever paid or made and however described provided that where a Cash Dividend is announced which is to be, or may at the election of a Shareholder or Shareholders be, satisfied by the issue or delivery of Shares or other property or assets, or where a capitalisation of profits or reserves is announced which is to be, or may at the election of a shareholder or shareholders be, satisfied by the payment of a Dividend, then for the purposes of this definition the Dividend in question shall be treated as a Dividend of (i) such Cash Dividend or (ii) the Fair Market Value (on the date of announcement of such Dividend or date of capitalisation (as the case may be) or, if later, the date on which the number of Shares (or amount of property or assets, as the case may be) which may be issued or delivered is determined) of such Shares or other property or assets if such Fair Market Value is greater than the Fair Market Value of such Cash Dividend;

(xiii) "**EBITDA Coverage Ratio**" means, on any Transaction Date, the ratio of (i) Consolidated EBITDA for the then most recent Relevant Period prior to such Transaction Date for which consolidated financial statements of the Company are available to (ii) the aggregate Consolidated Fixed Charge of such Relevant Period. In making the foregoing calculation:

(A) pro forma effect shall be given to any Financial Indebtedness Incurred, repaid or redeemed during the period (the "**Reference Period**") commencing on and including the first day of such Relevant Period and ending on and including the Transaction Date (other than Financial Indebtedness incurred or repaid under a revolving credit or similar arrangement in effect on the last day of such Relevant Period), in each case as if such Financial Indebtedness had been incurred, repaid and redeemed on the first day of such Reference Period; provided that, in the event of any such repayment or redemption, Consolidated EBITDA for such period shall be calculated as if the Issuer had not earned any interest income actually earned during such period in respect of the funds used to repay such Financial Indebtedness;

(B) pro forma shall be given to any investments, acquisitions, dispositions, mergers, consolidations or discontinued operations (as determined in accordance with GAAP) that have been made during the Reference Period as if all such investments, acquisitions, dispositions, mergers, consolidations or discontinued operations had occurred on the first day of such Reference Period; and

(C) pro forma shall be given to the creation, designation or redesignation of Subsidiaries as if such creation, designation or redesignation had occurred on the first date of such Reference Period.

For purposes of this definition, whenever pro forma effect is to be given to an investment, acquisition, disposition, merger, consolidation or discontinued operation and the amount of income or earnings relating thereto, the pro forma calculations shall be determined in good faith by a responsible financial or accounting Officer of the Issuer. If any Financial Indebtedness bears a floating rate of interest and is being given pro forma effect, the interest on such Financial Indebtedness shall be calculated as if the rate in effect on the Transaction Date had been the applicable rate for the entire period.

(xiv) "**Fair Market Value**" means, with respect to any asset, security, option, other right or property on any date, the fair market value of that asset, security, option, other right or property as determined in good faith by an Independent Financial Institution provided, that (i) the Fair Market Value of a Cash Dividend paid or to be paid shall be the amount of such Cash Dividend; (ii) the Fair Market Value of any other cash amount shall be equal to such cash amount; and (iii) where shares, options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by the Independent Financial Institution) the fair market value of such shares, options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of five Trading Days on the relevant market commencing on the first such Trading Days such shares, options, warrants or other rights are publicly traded; and in the case of (i) translated into CNY (if declared or paid in a currency other than CNY) at the rate of exchange used to determine the amount payable to shareholders who were paid or are to be paid or are entitled to be paid the Cash Dividend in CNY; and in any other case, converted into CNY (if expressed in a currency other than CNY) at such rate of exchange as may be determined in good faith by an Independent Financial Institution to be the spot rate ruling at the close of business on that date (or if no such rate is available on that date the equivalent rate on the immediately preceding date on which such a rate is available);

(xv) "**Financial Indebtedness**" means, in relation to any Person at any date, without duplication:

(A) all indebtedness of such Person for borrowed money;

(B) all obligations of such Person for the purchase price of property or services to the extent the payment of such obligations is deferred for a period in excess of 120 days (other than trade payables) and refundable deposits held as borrowings;

(C) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments;

(D) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person (unless the rights and remedies of the seller or lender under such agreement in the event of default are limited to repossession or sale of such property);

(E) all Finance Lease Obligations (to the extent treated as finance lease obligations in accordance with GAAP) or Synthetic Lease Obligations of such Person;

(F) any indebtedness of such Person for or in respect of receivables sold or discounted (other than any receivables to the extent they are sold or discounted on a non-recourse basis or on a basis where recourse is limited solely to warranty claims relating to title or objective characteristics of the relevant receivables);

(G) any indebtedness of such Person for any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing;

(H) all indebtedness of such Person, contingent or otherwise, as an account party under acceptance, letter of credit, completion guaranties, performance bonds or similar facilities; and

(I) all obligations of such Person, contingent or otherwise, to purchase, redeem, retire or otherwise acquire for value any Capital Stock of such Person prior to the respective maturity dates;

provided that indebtedness owing by one member of the Group (other than the Issuer) to another member of the Group (other than the Issuer) shall not be taken into account;

(xvi) "**Finance Lease Obligations**" means, as to any Person, the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property which are required to be classified and accounted for as finance leases under GAAP, and, for the purposes of these Conditions, the amount of such obligations at any time shall be the capitalised amount thereof at such time determined in accordance with GAAP;

(xvii) "**GAAP**" means the Singapore Financial Reporting Standards or the International Financial Reporting Standards issued and/or adopted by the Singapore Institute of Certified Public Accountants and International Accounting Standards Board, respectively (or any successor thereof) as in effect from time to time;

(xviii) "**Incur**" means issue, assume, guarantee, incur or otherwise become liable for; provided, however, that any Financial Indebtedness or capital stock of a person existing at the time such person becomes a Subsidiary (whether by merger, amalgamation, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such person at the time it becomes a Subsidiary;

(xix) "**Independent Financial Institution**" means an independent investment or commercial bank of international repute selected by the Issuer (at the expense of the Issuer);

(xx) "**Investment Securities**" means any present or future indebtedness in the form of, or represented by, bonds, debentures, notes or other investment securities which are for the time being, or are intended to be or capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or other securities market (which shall not include any bonds, debentures, notes or other investment securities solely issued in the PRC);

(xxi) "**Maximum Leverage Ratio**" means, as of each date of determination, the ratio of Consolidated Net Borrowings on such date to Consolidated Tangible Net Worth of the Group on such date;

(xxii) "**Net Profit After Tax per Annum**" means the profit of the Group after deduction of all expenses, finance costs and taxes for a Relevant Period;

(xxiii) "**Person**" means any natural person, company, trust, corporation, partnership, firm, association, governmental authority or any other entity whether acting in an individual, fiduciary or other capacity;

(xxiv) "**PRC**" means the People's Republic of China and, for the purpose of these Conditions only, excluding Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan;

(xxv) "**Relevant Period**" means each period of twelve months ending on the last day of the Issuer's financial year and each period of twelve months ending on the last day of first half of the Issuer's financial year;

(xxvi) "**SGX-ST**" means the Singapore Exchange Securities Trading Limited;

(xxvii) "**Shareholder**" means the holder of Shares;

(xxviii) "**Shares**" means the equity shares in the Issuer;

(xxix) "**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency beyond the control of the Issuer unless such contingency has occurred.

(xxx) "**Synthetic Lease Obligations**" means all monetary obligations of a Person under (a) a so-called synthetic, off-balance sheet or tax retention lease, or (b) an agreement for the use or possession of property creating obligations which do not appear on the balance sheet of such Person but which, upon the insolvency or bankruptcy of such Person, would be characterised as the Financial Indebtedness of such Person (without regard to accounting treatment);

(xxxi) "**Trading Day**" means a day when the SGX-ST is open for business, but does not include a day when (a) no such last transaction price or closing bid and offered prices is/are reported and (b) (if the securities are not listed or admitted to trading on such exchange) no such closing bid and offered prices are furnished as aforesaid;

(xxxii) "**Transaction Date**" means, with respect to the incurrence of any Financial Indebtedness, the date on which such Financial Indebtedness is to be incurred;

(xxxiii) "**Voting Rights**" means the right generally to vote at a general meeting of Shareholders of the Issuer (irrespective of whether or not, at the time, stock of any other class or classes shall have, or might have, voting power by reason of the happening of any contingency); and

(xxxiv) "**Weighted Average Life to Maturity**" means, when applied to any Financial Indebtedness, as the case may be, at any date, the quotient obtained by dividing (1) the sum of the products of the number of years from the date of determination to the date of each successive scheduled principal payment of such Financial Indebtedness multiplied by the amount of such payment, by (2) the sum of all such payments.

(c) ***Compliance Certificate***

(i) The Issuer shall deliver to the Trustee within 14 days of demand by the Trustee or within 90 days after the end of the Relevant Period an Officers' Certificate stating that

(a) in the course of the performance by the signers of their duties as Officers of the Issuer they would normally have knowledge of any Event of Default or Potential Event of Default and whether or not the signers know of any Event of Default or Potential Event of Default that occurred during the prior fiscal year. If they do, the certificate shall describe the Event of Default or Potential Event of Default, its status and what action the Issuer is taking or proposes to take with respect thereto;

(b) whether or not as of 31 December of the prior fiscal year, to the best of such signers' knowledge, the Issuer was in compliance with all covenants under Condition 5. In connection with this statement and for purposes of calculations under Condition 5, the signers shall refer to the Issuer's audited financial statements of the prior fiscal year as the basis of their calculation and attach as a schedule to the Officers' Certificate setting forth such full calculation in support of their statement (with separate schedules attached thereto as necessary).

(ii) When any Event of Default or Potential Event of Default has occurred and is continuing, the Issuer shall deliver to the Trustee, within 30 days after the occurrence thereof by registered or certified mail or facsimile transmission, an Officers' Certificate specifying such event, notice or other action or inaction, its status and what action the Issuer is taking or proposes to take in respect thereto.

6. **Interest**

(a) **Interest Rate and Interest Payment Dates**: The Notes bear interest from and including 6 August 2013 (the "**Closing Date**") at the rate of 8.50 per cent. per annum, payable semi-annually in arrear on 6 February and 6 August in each year (each an "**Interest Payment Date**"), commencing 6 February 2014. If any Interest Payment Date would otherwise fall on a day which is not a business day (as defined below), it shall be postponed to the next day which is a business day unless it would thereby fall into the next calendar month in which event it shall be brought forward to the immediately preceding business day. In these Conditions, the period beginning on and including 6 August 2013 and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date is called an "**Interest Period**".

(b) **Interest Payments**: Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused. In such event, it shall continue to bear interest in accordance with this Condition 6 (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder, and (ii) the day seven days after the Trustee or the Principal Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holders under these Conditions).

(c) **Calculation of Interest**: Interest in respect of any Note shall be calculated per CNY100,000 in principal amount of the Notes (the "**Calculation Amount**"). The amount of interest payable per Calculation Amount for any period shall be calculated by applying the rate of interest specified in this Condition 6(a) to the Calculation Amount and multiplying such product by the actual number of days in the Interest Period concerned divided by 365 and rounding the resulting figure to the nearest cent (half a cent being rounded upwards).

(d) In this Condition 6, the expression "**business day**" means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks are open for business and settlement of CNY payments in Hong Kong.

7. **Redemption and Purchase**

(a) **Final redemption**: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on the Interest Payment Date falling on, or nearest to, 6 February 2015. The Notes may not be redeemed at the option of the Issuer other than in accordance with this Condition 7.

(b) **Redemption for Taxation Reasons**: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to, but excluding the date fixed for redemption, if, immediately before giving such notice, the Issuer satisfies the Trustee that:

(i) (a) the Issuer has, or on the next Interest Payment Date will, become obliged to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction (as defined in Condition 9), or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 30 July 2013, and (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it;

(ii) (a) (if a demand was made under the Guarantee) the relevant Subsidiary Guarantor has or will become obligated to pay additional amounts as provided or referred to in Condition 9 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of a Relevant Jurisdiction, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 30 July 2013, and (b) such obligation cannot be avoided by the relevant Subsidiary Guarantor taking reasonable measures available to it;

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or any Subsidiary Guarantor, as the case may be, would be obliged to pay such additional amounts if a payment in respect of the Notes or the Guarantee were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 7(b), the Issuer shall deliver to the Trustee and the Principal Paying Agent (a) Officer's Certificate of the Issuer or the relevant Subsidiary Guarantor (as the case may be) stating that the Issuer or the relevant Subsidiary Guarantor (as the case may be) is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and (b) an opinion in form and substance satisfactory to the Trustee of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the relevant Subsidiary Guarantor has or will become obligated to pay such additional amounts, or has or will become obligated to make such withholding or deduction, as a result of such change or amendment.

The Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the circumstances set out in (i) above, or as the case may be, (ii) above, in which event shall be conclusive and binding on the Noteholders. Such certificate and opinion shall be made available for inspection by the Noteholders.

(c) **Redemption for Sale**: Following the occurrence of a Redemption for Sale Event, the Notes shall be redeemed in whole or in part on the next Interest Payment Date (each, a "**Redemption for Sale Call Settlement Date**") at a price equal to 101 per cent. of their principal amount, together with accrued interest up to (but excluding) such Redemption for Sale Call Settlement Date.

(d) **Redemption for Release of Subsidiary Guarantor**: At any time following the release of a Subsidiary Guarantor pursuant to Condition 3(iv) (a "**Subsidiary Guarantor Release Event**"), the holder of any Note will have the right, at such Noteholder's option, to require the Issuer to redeem all or part of that Noteholder's Notes on the Interest Payment Date falling immediately after such Subsidiary Guarantor Release Event at 101 per cent. of their principal amount, together with accrued interest up to (but excluding) such Interest Payment Date. To exercise such right, the holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Release of Subsidiary Guarantor Put Exercise Notice**"), together with the Definitive Certificates evidencing the Notes to be redeemed by not later than 30 days following a Subsidiary Guarantor Release Event, or, if later, 30 days following the date of such Subsidiary Guarantor Release Event upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 18 (*Notices*). The "**Release of Subsidiary Guarantor Put Settlement Date**" shall be the 14th day after the expiry of such period of 30 days as referred to above.

A Release of Subsidiary Guarantor Put Exercise Notice, once delivered, will be irrevocable and the Issuer shall redeem the Notes subject to the Release of Subsidiary Guarantor Put Exercise Notices delivered as aforesaid.

The Issuer will give notice to the Noteholders and the Trustee in accordance with Condition 18 (*Notices*) by not later than 14 days following the first day on which it becomes aware of the occurrence of a Subsidiary Guarantor Release Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7(d)(*Redemption for Release of Subsidiary Guarantor*).

(e) **Redemption for Change of Control**: At any time following the occurrence of a Change of Control, the holder of any Note will have the right, at such holder's option, to require the Issuer to redeem all but not some only of that holder's Notes on the Put Settlement Date (as defined herein) at 101 per cent. of their principal amount, together with accrued interest up to but excluding such Put Settlement Date. To exercise such right, the holder of the relevant Note must deposit at the Specified Office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the Specified Office of any Paying Agent (a "**Put Exercise Notice**"), together with the Definitive Certificates evidencing the Notes to be redeemed by not later than 30 days following a Change of Control, or, if later, 30 days following the date upon which notice thereof is given to Noteholders by the Issuer in accordance with Condition 18. The "**Put Settlement Date**" will be the 14^{th} day after the expiry of such period of 30 days as referred to above.

A Put Exercise Notice, once delivered, shall be irrevocable and the Issuer shall redeem the Notes the subject of the Put Exercise Notices delivered as aforesaid on the Put Settlement Date.

The Issuer shall give notice to Noteholders and the Trustee in accordance with Condition 18 by not later than 14 days following the first day on which it becomes aware of the occurrence of a Change of Control, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Notes pursuant to this Condition 7(e).

In this Condition 7:

a "**Change of Control**" occurs when:

(i) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Issuer and its Subsidiaries, taken as a whole, to any person, other than to one or more of the Controlling Shareholders; or

(ii) any Person or Persons (other than one or more Controlling Shareholders) directly or indirectly, acting together, acquires Control directly or indirectly, of the Issuer; or

(iii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer's assets to any other Person or Persons, acting together, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity or where the other Person or Persons is Controlled by the Controlling Shareholders; or

(iv) the Controlling Shareholders as a group beneficially own less than 35 per cent. of the Voting Stock of the Issuer; or

(v) one or more Persons (other than the Controlling Shareholders) acquires the legal or beneficial ownership of the issued share capital of the Issuer greater than such beneficial ownership held by the Controlling Shareholders; or

(vi) individuals who on the Closing Date constituted the board of directors of the Issuer, together with any new directors whose election by the board of directors was approved by a vote of at least two-thirds of the directors then still in office who were either directors or whose election was previously so approved, cease for any reason to constitute a majority of the board of directors of the Issuer then in office, or at any time Mr. Liu Xingxu ceases for any reason other than physical or mental incapacitation or death to be either the Chief Executive Officer or the Chairman of the board of directors of the Issuer.

"**Controlling Shareholders**" means Mr. Liu Xingxu and/or Ms. Yan Yunhua; and/or any trusts established for the benefit of such shareholders and/or their immediate family members ("related trusts") and/or any of their associates (as defined in the listing rules of the SGX-ST) and/or any of their executors, administrators, personal representatives or similar representatives and/or beneficiaries of their estate and/or companies controlled by them, their immediate family members or related trusts in such companies' direct or indirect subsidiaries.

The Trustee shall not be required to take any steps to ascertain whether a Change of Control has occurred and shall not be responsible or liable to Noteholders for any loss arising from any failure to do so.

(f) **Notice of redemption**: All Notes in respect of which any notice of redemption is given under this Condition 7 shall be redeemed on the date specified in such notice in accordance with this Condition 7. Upon the expiry of any such notice as is referred to in this Condition 7, the Issuer shall be bound to redeem the Notes in accordance with this Condition 7.

(g) **Partial Redemption**: If the Notes are to be redeemed in part only on any date in accordance with Condition 7(c) (*Redemption for Sale*), each Note will be redeemed in part in the proportion which the aggregate principal amount of the outstanding Notes to be redeemed on the relevant Redemption for Sale Call Settlement Date bears to the aggregate principal amount of outstanding Notes at such date.

(h) **Purchase**: The Issuer and its Subsidiaries may at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased or redeemed by the Issuer or any of its Subsidiaries will be cancelled and may not be reissued or resold. The issuer and its Subsidiaries will notify the Paying Agent in writing upon completion of such open market purchases.

8. **Payments**

(a) **Method of payment**: Payment of principal and interest due on the Notes other than on an Interest Payment Date will be made by transfer to the registered account of the Noteholder. Payment of principal and interest due on Notes other than on an Interest Payment Date will only be made after surrender of the relevant Definitive Certificate at the specified office of any Agent. Interest on Notes due on an Interest Payment Date will be paid on the due date for the payment of interest to the holder shown on the Register at the close of business on the fifth Payment Business Day prior to the due date the payment of interest (the "**Interest Record Date**"). Payments of interest on each Note will be made by transfer to the registered account of the Noteholder in Hong Kong. Payment of all other amounts will be made as provided in these Conditions.

Regarding the Interest Record Date while the Notes are in global form, see "The Global Certificate".

If an amount which is due on the Notes is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

(b) **Registered accounts**: For the purposes of this Condition 8, a Noteholder's registered account means the CNY account maintained by or on behalf of it with a bank in Hong Kong, details of which appear on the Register at the close of business on the fifth Payment Business Day prior to the due date for payment.

(c) **Payment initiation**: Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a Payment Business Day, for value on the first following day which is a Payment Business Day) will be initiated on the due date for payment (or, if it is not a Payment Business Day, the immediately following business day) or, in the case of a payment of principal, if later, on the Payment Business Day on which the relevant Definitive Certificate is surrendered at the specified office of an Agent.

(d) **Payments subject to fiscal laws**: All payments are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) **Delay in payment**: Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day or if the Noteholder is late in surrendering its Definitive Certificate (if required to do so).

(f) **Payment Business Day**: In these Conditions, "**Payment Business Day**" means a day (other than a Saturday, Sunday or public holiday) upon which commercial banks are generally open for business and settlement of Renminbi payments in Hong Kong.

(g) **Payment of U.S. Dollar Equivalent**: Notwithstanding all other provisions in these Conditions, if by reason of Inconvertibility, Non-transferability or Illiquidity, neither the Issuer nor any Subsidiary Guarantor is able, or it would be impracticable for it, to satisfy payments of principal or interest (in whole or in part) in respect of Notes when due in Renminbi in Hong Kong, the Issuer or any Subsidiary Guarantor as the case may be, on giving not less than five or more than 30 days' irrevocable notice to the Noteholders in accordance with Condition 18 prior to the due date for payment, may settle any such payment (in whole or in part) in U.S. dollars on the due date at the U.S. Dollar Equivalent of any such Renminbi denominated amount.

In such event, payments of the U.S. Dollar Equivalent of the relevant principal or interest in respect of the Notes shall be made (i) by a U.S. dollar denominated cheque drawn on a bank in New York City and mailed to the holder (or to the first named of joint holders) of the Notes at its address appearing in the Register, or, upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, by transfer to a U.S. dollar denominated account with a bank in New York City.

In the event of a payment pursuant to this Condition 8(g), the following modification shall be made in respect of the Conditions:

> The definition of "**Payment Business Day**" in Condition 8(f) shall mean a day (other than a Saturday, Sunday or public holiday) on which commercial banks and foreign exchange markets are open for business in the place in which the specified office of the Registrar is located and on which foreign exchange transactions may be carried out in U.S. dollars in New York City.

For the purposes of these Conditions, "**U.S. Dollar Equivalent**" means the Renminbi amount converted into U.S. dollars using the Spot Rate for the relevant Rate Calculation Date.

In this Condition:

"**Governmental Authority**" means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of Hong Kong.

"**Illiquidity**" means the general Renminbi exchange market in Hong Kong becomes illiquid as a result of which the Issuer or the Subsidiary Guarantors (if any) cannot obtain sufficient Renminbi in order to satisfy its obligation to pay interest and principal (in whole or in part) in respect of the Notes.

"**Inconvertibility**" means the occurrence of any event that makes it impossible for the Issuer or the Subsidiary Guarantors (if any) to convert any amount due in respect of the Notes in the general Renminbi exchange market in Hong Kong, other than where such impossibility is due solely to the failure of the Issuer or any Subsidiary Guarantor to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after 30 July 2013 and it is impossible for the Issuer or such Subsidiary Guarantor, due to an event beyond its control, to comply with such law, rule or regulation).

"**Non-transferability**" means the occurrence of any event that makes it impossible for the Issuer or the Subsidiary Guarantors (if any) to deliver Renminbi between accounts inside Hong Kong or from an account inside Hong Kong to an account outside Hong Kong, other than where such impossibility is due solely to the failure of the Issuer or the Subsidiary Guarantors (if any) to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after 30 July 2013 and it is impossible for the Issuer or such Subsidiary Guarantor, due to an event beyond its control, to comply with such law, rule or regulation).

"**Rate Calculation Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in Hong Kong and in New York City;

"**Rate Calculation Date**" means the day which is two Rate Calculation Business Days before the due date of the relevant amount under these Conditions; and

"**Spot Rate**" means the spot Renminbi/U.S. dollar exchange rate for the purchase of U.S. dollars with Renminbi in the over-the-counter Renminbi exchange market in Hong Kong for settlement in two business days, as determined by an agent (the "**Calculation Agent**") appointed by the Issuer for this purpose under the terms of the Agency Agreement at or around 11 a.m. (Hong Kong time) on the Rate Calculation Date, on a deliverable basis by reference to Reuters Screen Page TRADCNY3, or if no such rate is available, on a non-deliverable basis by reference to Reuters Screen Page TRADNDF. If neither rate is available, the Calculation Agent will determine the Spot Rate at or around 11 a.m. (Hong Kong time) on the Rate Calculation Date as the most recently available Renminbi/U.S. dollar official fixing rate for settlement in two business days reported by The State Administration of Foreign Exchange of the PRC, which is reported on the Reuters Screen Page CNY=SAEC. Reference to a page on the Reuters Screen means the display page so designated on the Reuter Monitor Money Rates Service (or any successor service) or such other page as may replace that page for the purpose of displaying a comparable currency exchange rate.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 8(g) by the Calculation Agent, will (in the absence of manifest error) be binding on the Issuer, the Subsidiary Guarantors (if any), the Trustee, the Agents and all Noteholders.

For so long as any of the Notes are represented by the Global Certificate registered in the name of, and lodged with a sub-custodian for, the Operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the Global Certificate is credited as being held by the Operator at the relevant time, as notified to the Paying Agent by the Operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the Operator. Such payment will discharge the Issuer's and any Subsidiary Guarantor's obligations in respect of that payment. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

9. **Taxation**

All payments of principal and interest by or on behalf of the Issuer in respect of the Notes, or under any Guarantee of the Notes by any Subsidiary Guarantor, shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of or within any of the Relevant Jurisdictions, unless such withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer or as the case may be, the relevant Subsidiary Guarantor, will pay such additional amounts as will result in receipt by the Noteholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) **Other connection**: to a holder (or to a third party on behalf of a holder) who is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of his having some connection with the Relevant Jurisdictions other than the mere holding of the Note or where the withholding or deduction could be avoided by the holder making a declaration of non-residence or other similar claim for excemption to the appropriate authority;

(b) **Surrender more than 30 days after the Relevant Date**: in respect of which the Certificate representing it is surrendered for payment more than 30 days after the Relevant Date except to the extent that the holder of it would have been entitled to such additional amounts on presenting such Note for payment on the last day of such period of 30 days assuming (whether or not such is in fact the case) that day to have been a Payment Business Day (as defined in Condition 8); or

(c) **Payment to individuals**: where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

In these Conditions "**Relevant Date**" means whichever is the later of (a) the date on which such payment first becomes due, and (b) if the full amount payable has not been received by an Agent or the Trustee in accordance with the provision of the Agency Agreement on or prior to such due date, the date on which payment in full of the amount outstanding has been received and notice to that effect has been given to the Noteholders in accordance with Condition 18. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition 9 or any undertaking given in addition to or substitution for it under the Trust Deed.

Relevant Jurisdiction means Singapore, Hong Kong or the PRC or any other jurisdiction or, in any case, any political subdivision or any authority thereof or therein having power to tax to which the Issuer or the any Subsidiary Guarantor becomes subject in respect of payments made by it of principal and interest on the Notes and the related Guarantee.

10. **Events of Default**

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution (provided that the Trustee shall have been indemnified and/or secured and/or prefunded to its satisfaction), shall give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

(a) **Non-Payment of principal**: the Issuer or a Subsidiary Guarantor fails to pay the principal on any of the Notes or the Guarantee of the Notes, as the case may be, when due; or

(b) **Non-Payment of interest**: the Issuer or a Subsidiary Guarantor fails to pay any amount of interest in respect of the Notes within five business days (as defined in Condition 6(d)) of the due date for the payment thereof; or

(c) **Breach of Other Obligations**: the Issuer or any Subsidiary Guarantor, as the case may be, does not perform or comply with any one or more of its other obligations in the Notes, the Guarantee or the Trust Deed (including the covenants in Condition 5) which default is incapable of remedy or if capable of remedy in the opinion of the Trustee, is not in the opinion of the Trustee remedied within thirty days (or such longer period as the Trustee may permit) after written notice of such default was given to the Issuer by the Trustee; or

(d) **Cross-Default**: (i) any other present or future indebtedness of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes (or becomes capable of being declared) due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (ii) any such indebtedness is not paid when due or, as the case may be, within any originally applicable grace period, or (iii) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned in (i) to (iii) above in this Condition 10(d) have occurred equals or exceeds US$10 million or its equivalent in any other currency or currencies (on the basis of the middle spot rate for the relevant currency against the USD as quoted by any leading bank on the day on which this Condition 10(d) operates); or

(e) **Enforcement Proceedings**: a distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or any of its Subsidiaries and is not discharged or stayed within thirty days; or

(f) **Security Enforced**: any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or any of its Subsidiaries becomes enforceable over a material part of their assets or revenues and any step is taken to enforce it (including the taking of possession or the appointment of a receiver manager or other similar Person) and is not discharged within thirty days of its occurrence; or

(g) **Insolvency**: the Issuer or any of its Subsidiaries is (or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or a material part of its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts, a moratorium is agreed or declared in respect of or affecting all or any material part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries or the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or any substantial part of its business; or

(h) **Winding-up**: an administrator is appointed, an order is made by a court of competent jurisdiction or an effective resolution passed for the winding-up or dissolution of the Issuer or any of its Subsidiaries, or the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on all or a material part of its business or operations, except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (i) on terms approved by an Extraordinary Resolution of the Noteholders, or (ii) in the case of a Subsidiary, whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer or another of its Subsidiaries; or

(i) **Failure to Take Actions**: any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (i) to enable the Issuer and any Subsidiary Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under the Notes, the Guarantee, the Trust Deed or the Agency Agreement, (ii) to ensure that those obligations are legally binding and enforceable and (iii) to make the Notes, any Guarantee, the Trust Deed and Agency Agreement admissible in evidence in the courts of England, is not taken, fulfilled or done; or

(j) **Nationalisation**: any step is taken by any Person acting under the authority of any national, regional or local government with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or a material part of the assets of the Issuer or any of its Subsidiaries or the Issuer or any of its Subsidiaries is prevented by any such person from exercising normal control over all or any part of its assets and revenues; or

(k) **Illegality**: if the validity of the Notes, any Guarantee, the Trust Deed or the Agency Agreement is contested by the Issuer or any Subsidiary Guarantor, or the Issuer or any Subsidiary Guarantor denies any of its obligations under the Notes, any Guarantee, the Trust Deed or the Agency Agreement (unless such denial or contention is in good faith) or it is or will become unlawful for the Issuer or a Subsidiary Guarantor to perform or comply with any one or more of its obligations under any of the Notes, any Guarantee, the Trust Deed or the Agency Agreement or any of such obligations are or become unenforceable or invalid; or

(l) **Guarantee**: any guarantee of the Notes is not (or is claimed by any Subsidiary Guarantor not to be) in full force and effect;

(m) **Analogous Events**: any event occurs which under the laws of any jurisdiction that is relevant to the Issuer or any of its Subsidiaries has an analogous effect to any of the events referred to in any of the foregoing paragraphs of this Condition 10.

11. **Prescription**

Claims for payment in respect of the Notes shall be prescribed and become void unless made within a period of 10 years in the case of principal and five years in the case of interest from the appropriate Relevant Date in respect of them.

12. **Replacement of Certificates**

If any Definitive Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence, security, indemnity, and otherwise, as the Issuer and the Registrar or such Agent may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

13. **Trustee**

Under the Trust Deed, the Trustee is entitled to be indemnified, secured and/or prefunded to its satisfaction and is relieved from responsibility in certain circumstances and is entitled to be paid its costs and expenses in priority to the claims of the Noteholders.

14. **Agents**

The initial Principal Paying Agent, the initial Transfer Agent and the initial Registrar and their initial specified offices are listed below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (i) a Principal Paying Agent, (ii) a Registrar outside the United Kingdom, (iii) an Agent having a specified office in Singapore where the Notes may be presented or surrendered for payment or redemption, so long as the Notes are listed on the SGX-ST and the rules of that exchange so require (and such agent in Singapore shall be a Paying Agent and Transfer Agent and shall be referred to in these terms and conditions as the "**Singapore Agent**") and (iv) as necessary a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to any law implementing the Savings Directive (2003/48/EC) or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Paying Agent will be given promptly by the Issuer to the Noteholders in accordance with Condition 18 and in any event not less than 30 days' notice will be given.

So long as the Notes are listed on the SGX-ST and the rules of that exchange so require, in the event that the Global Certificate is exchanged for Definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for Definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the Definitive Certificates, including details of the Singapore agent.

15. **Meetings of Noteholders, modification, waiver and substitution**

(a) **Meetings of Noteholders**: The Trust Deed contains provisions for convening meetings of Noteholders to consider matters affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent in principal amount of the Notes for the time being outstanding. The quorum for any meeting convened to consider an Extraordinary Resolution will be two or more Persons holding or representing a more than 50 per cent., in principal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, inter alia, (i) to modify the maturity of the Notes or the dates on which interest is payable in respect of the Notes, (ii) to reduce or cancel the principal amount of, or interest on, the Notes, (iii) to alter the method of calculating the amount of any payment in respect of the Notes or the date of any such payment, (iv) to change the currency of payment of the Notes, (v) to amend the terms of the Guarantee or (iv) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum will be two or more Persons holding or representing not less than two-thirds, or at any adjourned meeting not less than one-third, in principal amount of the Notes for the time being outstanding (each, a "**Reserved Matter**"). Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed).

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 90 per cent. in principal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) **Modification and waiver**: The Trustee may without the consent of the Noteholders at any time and from time to time concur with the Issuer and/or the Subsidiary Guarantors in making any modification (other than in respect of a Reserved Matter) to these Conditions and the Trust Deed (i) which in the opinion of the Trustee it may be proper to make *provided that* the Trustee is of the opinion that such modification will not be materially prejudicial to the interests of the Noteholders or (ii) if in the opinion of the Trustee such modification is of a formal, minor or technical nature or to correct a manifest error or an error which is, in the opinion of the Trustee, proven or to comply with mandatory provisions of law.

In addition, the Trustee may, without the consent of the Noteholders authorise or waive any proposed breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders by the Issuer in accordance with Condition 18 as soon as practicable thereafter and shall be binding on all Noteholders.

(c) **Substitution**: The Trust Deed contains provisions permitting the Trustee to agree, but it shall not be obliged to so agree, subject to such amendment of the Trust Deed and such other conditions as the Trustee may require, but without the consent of the Noteholders, to the substitution of any other company in place of the Issuer, or of any previous substituted company, as principal debtor under the Trust Deed and the Notes. In the case of such a substitution the Trustee may agree, but it shall not be obliged to so agree, without the consent of the Noteholders, to a change of the law governing the Notes and/or the Trust Deed provided that such change would not in the opinion of the Trustee be materially prejudicial to the interests of the Noteholders. In such event, the Issuer shall give notice to Noteholders in accordance with Condition 18.

(d) **Interests of Noteholders**: In connection with the exercise of its functions, powers and discretions (including but not limited to those in relation to any proposed modification, authorisation, waiver or substitution) the Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders and the Trustee shall not be entitled to require, nor shall any Noteholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Noteholders except to the extent provided for in Condition 9 (*Taxation*) and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

16. **Enforcement**

At any time after the Notes have become due and repayable, the Trustee may, at its sole discretion and without further notice, take such proceedings against the Issuer or any Subsidiary Guarantor as it may think fit to enforce repayment of the Notes and to enforce the provisions of the Guarantee or the Trust Deed, but it will not be bound to take any such proceedings unless (i) it shall have been so requested in writing by the holders of not less than one fifth in principal amount of the Notes then outstanding or shall have been so directed by an Extraordinary Resolution of the Noteholders and (ii) it shall have been indemnified and/or secured and/or prefunded to its satisfaction. No Noteholder will be entitled to proceed directly against the Issuer or any Subsidiary Guarantor unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing and no direction inconsistent with such written request or Extraordinary Resolution has been given to the Trustee.

17. **Further Issues**

The Issuer may from time to time without the consent of the Noteholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them) and so that such further issue shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it will, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

18. **Notices**

All notices to Noteholders will be valid if made in writing in English and mailed to them by uninsured mail at the Issuer's expense (failing which the Subsidiary Guarantors' expense) at their respective addresses in the Register maintained by the Registrar. The Issuer will also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice will be deemed to have been given on the seventh weekday (being a day other than a Saturday or a Sunday) after the date of mailing.

So long as the Global Certificate is held on behalf of the Operator, any notice to the holders of the Notes shall be validly given by the delivery of the relevant notice to the accountholder shown in a CMU instrument position report issued by the Operator on the business day preceding the date of despatch of such notice as holding interests in the Global Certificate.

19. **Delivery of Report**

So long as the Notes are listed on the SGX-ST, the Issuer will as soon as practicable and in any event no later than 10 days after its filing with SGX-ST any annual or other reports (including but not limited to its audited financial statements or any (audited or otherwise) interim financial statements) arising from its obligations in connection with the listing of the Notes, deliver a copy of the same filing to the Trustee.

20. **Indemnification**

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified and/or secured and/or prefunded to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

Any certificate, report or advice of any expert, lawyers, accountants, financial advisers, investment bank or other Person called for by or provided to the Trustee (whether or not addressed to the Trustee) in accordance with or for the purposes of these Conditions or the Trust Deed may be relied upon by the Trustee as sufficient evidence of the facts therein and shall, in absence of manifest error, be conclusive and binding on all parties notwithstanding that such certificate or report or advice and/or engagement letter or other document entered into by the Trustee and/or the Issuer and/or any other Person, as the case may be, in connection therewith contains a monetary or other limit on the liability of the relevant expert or Person in respect thereof, and the Trustee shall not be responsible for any loss occasioned by acting on any such certificate or report.

21. **Contracts (Rights of Third Parties) Act 1999**

No Person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999.

22. **Currency Indemnity**

Subject to Condition 8(g), the Renminbi is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than Renminbi (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the insolvency, winding-up or dissolution of the Issuer or otherwise) by any Noteholder or the Trustee in respect of any sum expressed to be due to it from the Issuer shall only constitute a discharge to the Issuer to the extent of the Renminbi amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

If that Renminbi amount is less than the Renminbi amount expressed to be due to the recipient under any Note, the Issuer will indemnify such recipient against any loss sustained by it as a result. In any event, the Issuer will indemnify the recipient against the cost of making any such purchase. For purposes of this Condition, it will be sufficient for the Noteholder or, as the case may be, the Trustee to demonstrate that it would have suffered a loss had an actual purchase been made. These indemnities constitute a separate and independent obligation from the Issuer's other obligations, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any Noteholder and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any other judgement or order. Any reference in these Conditions to principal and/or interest will be deemed to include any amount which may be payable under the indemnity in this Condition.

23. **Governing Law**

(a) **Governing Law**: The Trust Deed, the Notes, the Agency Agreement and any non-contractual obligations arising out of or in connection with them are governed by and shall be construed in accordance with English law.

(b) **Jurisdiction**: The Issuer has in the Trust Deed (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England are to have jurisdiction to settle any disputes ("**Dispute**") that may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("**Proceedings**") may be brought in such courts; (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient to accept service of any process on its behalf.

(c) **Service of Process**: Pursuant to the Trust Deed, the Issuer has irrevocably appointed Law Debenture Corporate Services Limited (Fifth Floor, 100 Wood Street, London EC2V 7EX, United Kingdom) as its agent in England to receive service of process in any Proceedings in England based on any of the Notes, the Trust Deed or the Agency Agreement. If for any reason the Issuer does not have such an agent in England, it will promptly appoint a substitute process agent and notify the Trustee, the Agents and the Noteholders of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.

THE GLOBAL CERTIFICATE

The Global Certificate contains the following provisions which apply to the Notes in respect of which they are issued whilst they are represented by a Global Certificate, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in the paragraphs below.

The Notes will be issued in registered form and represented by a global certificate registered in the name of the HKMA in its capacity as operator of the CMU and shall be delivered to and held by a sub-custodian nominated by the HKMA as operator of the CMU. The Global Certificate will be held for the account of CMU members who have accounts with the CMU operator, or the CMU participants. For persons seeking to hold a beneficial interest in the Notes through Euroclear or Clearstream, such persons will hold their interests through an account opened and held by Euroclear or Clearstream with the CMU operator. Interests in the Global Certificate will only be shown on, and transfers of interests will be effected through, records maintained by the CMU operator.

The Global Certificate will become exchangeable in whole, but not in part (save as otherwise provided), for definitive notes if any of the following events occurs:

- if the Global Certificate is held on behalf of the CMU or any clearance system, in addition to or in substitution for the CMU, on whose behalf the Global Certificate is for the time being held and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention to cease business permanently or does in fact do so; or

- any of the circumstances described in Condition 10 of the Terms and Conditions of the Notes occurs.

Since the CMU operator can act only on behalf of the CMU participants, who in turn may act on behalf of persons who hold interests through them, or indirect participants, the ability of persons having interests in the Global Certificate to pledge such interests to persons or entities that are not CMU participants, or otherwise take action in respect of such interests, may be affected by the lack of definitive certificates.

While the Global Certificate representing the Notes is held by or on behalf of the CMU operator, payments of interest or principal will be made to the persons for whose account a relevant interest in the Global Certificate is credited as being held by the CMU operator at the relevant time, as notified to the Paying Agent by the CMU operator in a relevant CMU instrument position report (as defined in the rules of the CMU) or in any other relevant notification by the CMU operator. So long as the Notes are represented by the Global Certificate and which is held by or on behalf of the CMU operator, such payment by the Company will discharge its obligations in respect of that payment and such person(s) must look solely to the CMU operator for his or their share of each payment made by the Company in respect of the Global Certificate and in relation to all other rights arising under the Global Certificate, subject to and in accordance with the respective rules and procedures of the CMU, and such person(s) shall have no claim directly against the Company in respect of payments so made by the Company. Any payments by the CMU participants to indirect participants will be governed by arrangements agreed between the CMU participants and the indirect participants and will continue to depend on the inter-bank clearing system and traditional payment methods. Such payments will be the sole responsibility of such CMU participants.

Payments, transfers, exchanges and other matters relating to interests in the Global Certificate may be subject to various policies and procedures adopted by the CMU operator from time to time. None of the Company, the Managers, the Trustee, the Agents or any of their agents will have any responsibility or liability for any aspect of the CMU operator's records relating to, or for payments made on account of, interests in the Global Certificate, or for maintaining, supervising or reviewing any records relating to such interests.

For so long as all of the Notes are represented by a Global Certificate and the Global Certificate is held by the CMU operator, notices to holders of the Notes may be given by delivery of the relevant notice to the persons shown in a CMU instrument position report issued by the CMU operator on the business day preceding the date of despatch of such notice as holding interests in the Global Certificate for communication to the CMU participants. Any such notice shall be deemed to have been given to the holders of the Notes on the second business day on which such notice is delivered to the persons shown in the relevant CMU instrument position report as aforesaid. Indirect participants will have to rely on the CMU participants (through whom they hold the Notes, in the form of interests in the Global Certificate) to deliver the notices to them, subject to the arrangements agreed between the indirect participants and the CMU participants. For so long as the Notes are listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST"), notices shall also be published in the manner required by the applicable rules and regulations of the SGX-ST.

The CMU operator is under no obligation to maintain or continue to operate the CMU and the CMU operator is under no obligation to perform or continue to perform the procedures described above. Accordingly, the CMU and such procedures may be discontinued or modified at any time. None of the Company, the Managers, the Trustee, the Agents nor any of their agents will have any responsibility for the performance by the CMU operator or the CMU participants of their respective obligations under the rules and procedures governing their operations.

USE OF PROCEEDS

The gross proceeds from the offering of the Notes will be RMB250,000,000.

The Company intends to use the net proceeds from this offering to finance capital expenditure, repay onshore loans and for general corporate purposes.

CAPITALISATION AND INDEBTEDNESS OF THE GROUP

As at 30 April 2013, the issued share capital of the Company was RMB836,671,000 divided into 1,000,000,000 ordinary shares.

The following table sets forth the consolidated capitalisation and indebtedness of the Group as at 30 April 2013 and as adjusted to give effect to the issue of the Notes (before deducting fees and expenses).

	As at 30 April 2013	
	Actual	As Adjusted
	(RMB '000)	
Short-term borrowings		
Bank borrowings (secured)	—	—
Bank borrowings (unsecured)	178,250	178,250
Long-term borrowings		
Bank borrowings (secured)	—	—
Bank borrowings (unsecured)	2,028,612	2,028,612
The Notes to be issued(1)	—	250,000
Total borrowings	2,206,862	2,456,862
Equity		
Share capital (RMB 0.84 par value per share, 1,000,000,000 shares issued fully paid-up)	836,671	836,671
Convertible bonds	327,235	327,235
Statutory reserve fund	184,569	184,569
Available for sale investment revaluation reserve	4,326	4,326
Retained profits	1,066,884	1,066,884
Non-controlling interest	6,732	6,732
Total equity	2,426,417	2,426,417
Total capitalisation(2)	4,455,029	4,705,029

(1) Representing the gross proceeds from the issue of the Notes before deduction of any fees, commission or expenses.

(2) Total capitalisation is the sum of total long-term borrowings and total equity.

Other than as disclosed above, there has been no material change in the consolidated capitalisation or consolidated indebtedness of the Group since 30 April 2013.

This section contains certain information and statistics concerning the PRC fertiliser industry. The Company has derived the information and data from various official publications and the CNCIC Report. The Company has commissioned CNCIC, an independent third party to provide a market research report on the PRC fertiliser industry. The Company believes that the sources of the information of this section are appropriate sources for such information and has taken reasonable care in extracting and reproducing such information. The information in this section has not been independently verified by the Company, the Managers, or any other party involved in the Offering 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) integrated data from existing research and public secondhand data sources (such as company websites, industry associations , trade publications and national statistics); (ii) direct visits or telephone interviews with market participants; (iii) telephone interviews with industry experts; (iv) search from relevant government departments; and (v) all kinds of publications. In preparing 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 the following: (i) fertiliser is an important pro-agriculture product, thus the consumption volume will not significantly decrease due to an 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 policies on fertiliser imports and exports.

GENERAL OVERVIEW

Fertilisers are chemical compounds containing plant nutrients and their application can promote plant and fruit growth 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.

- 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 International Fertiliser Industry Association ("**IFIA**"), the world's fertiliser output in 2012 was approximately 216 million tonnes, including approximately 142 million tonnes of nitrogen, approximately 42 million tonnes of phosphate and approximately 32 million tonnes of potash on pure nutrient basis. While in 2012, the world's fertiliser consumption was approximately 209 million tonnes, including approximately 135.5 million tonnes of nitrogen, approximately 41.4 million tonnes of phosphate and approximately 31.9 million tonnes of potash on pure nutrient basis. Basically, the supply and the demand of world's fertilisers are in balance in 2012.

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. According to the IFIA, the world's urea production in 2012 rose by approximately 3.4% to approximately 160 million tonnes, of which the PRC accounted for 40.8% of the world's urea production.

Currently, the PRC is the largest urea producer and exporter in the world and will continue to maintain a certain amount of urea exports.

Fertiliser prices are cyclical, similar to any other commodity. The cyclicality 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 THE PRC'S FERTILISER INDUSTRY

Production of fertilisers

Currently, the PRC is the largest fertiliser producing and consuming country in the world, accounting for approximately 35% of the world's total fertiliser consumption. In 2012, the PRC produced approximately a total of 76.32 million tonnes of fertilisers on pure nutrient basis. Such total output of fertilisers included approximately 49.47 million tonnes of nitrogen fertiliser, approximately 19.56 million tonnes of phosphate fertiliser and approximately 5.3 million tonnes of potash fertiliser. Apart from Beijing, Shanghai, Guangdong and Tibet, nitrogen fertiliser is produced in approximately 28 provinces and municipalities in the PRC, while phosphate fertiliser production concentrates in the phosphorus ores-rich provinces, such as Hubei, Shandong, Guizhou, Yunnan and Sichuan, and potash fertiliser production is highly concentrated in Qinghai and Xinjiang.

Consumption of fertilisers

With the increase in demand from agricultural development, the PRC's fertiliser industry has been growing steadily. According to the CNCIC Report, approximately 40% of grain yield increase in the PRC is attributed to the application of fertilisers. The table below sets forth the development of crop planting area, grain output and fertiliser consumption in the PRC from 2000 to 2012.

Crop Planting Area, Grain Output and Fertiliser Consumption in the PRC

Year	Crops planting area	Grain planting area	Proportion of grain in crops	Grain output	Fertiliser consumption on pure nutrient basis
	('000 hectare)	('000 hectare)	(%)	('000 tonnes)	('000 tonnes)
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
2009	158,639	108,986	69	530,820	54,044
2010	160,675	109,872	68	546,410	54,600
2011	162,283	110,573	68	571,208	57,042
2012	NA	111,267	NA	589,570	58,400(estimate)

Source: Ministry of Agriculture, PRC

The rapid development of agriculture in turn stimulates the demand for fertiliser. In 1980, approximately 12.7 million tonnes of fertiliser were consumed in the PRC, on a pure nutrient basis. The amount increased to 41.5 million tonnes in 2000 and further to 57.0 million tonnes in 2011. Of all fertilisers, the consumption 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%. The table below sets forth a breakdown in the types of fertiliser used in the PRC from 2000 to 2011, reflecting a CAGR of approximately 2.9% for total fertiliser consumption.

Fertiliser Consumption in the PRC
('000 tonnes, on pure nutrient basis)

Year	Total	Nitrogen fertiliser (N)	Phosphate fertiliser (P_2O_5)	Potash fertiliser (K_2O)	Compound fertiliser
2000	41,463.4	21,615.9	6,905	3,765.7	9,176.8
2001	42,540.1	21,641.1	7,059.6	3,997.8	9,841.6
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
2009	54,044	23,299	7,977	5,643	16,987
2010	55,610	23,537	8,056	5,864	17,985
2011	57,042	23,814	8,192	6,051	18,951

Source: Ministry of Agriculture, the PRC

Industry prospects

The PRC is now the most populous country in the world. With rapid economic development, population growth, improvement of people's living standards, accelerated urbanisation rates and improved dietary requirements, demand for agricultural products has continued to increase. However, with limited and decreasing amounts of arable land available for agricultural production, farmers have to increase their crop yield by using fertiliser in more efficient ways. These factors, along with a number of measures taken by the PRC government which have increased farmers' incomes, increased the investments in the agricultural industry and which have improved water supply and irrigation, are indicators that the demand for fertilisers in the PRC will experience a steady growth in the near future.

OVERVIEW OF THE PRC'S UREA INDUSTRY

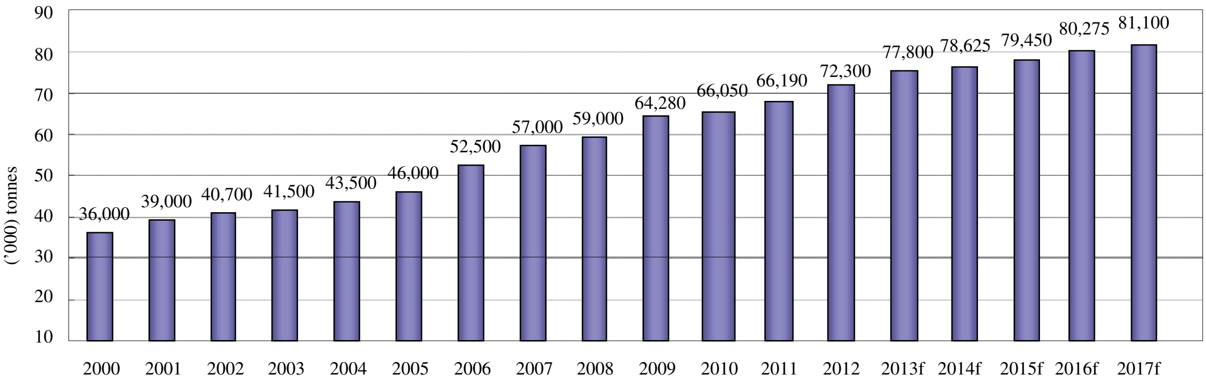
Among all fertiliser products, urea is the most widely used type as it can be used as a fertiliser for all types of soil and for any crops. It can also be used for base fertilisers or additional fertilisers and applied in dry farmland or paddy fields, as well as for compound fertiliser production.

Urea production capacity

Urea is widely applied in the PRC's agricultural and industrial sectors. The production capacity of urea in the PRC increased from approximately 36 million tonnes in 2000 to approximately 72.3 million tonnes in 2012, with an average annual increase of about 2.8 million tonnes per annum.

The PRC government's current agriculture-focused policy initiatives will boost grain yield in the PRC 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 the PRC from 2000 to 2012 and the forecast of the PRC's urea production capacity for the period from 2013 to 2017.

Urea Production Capacity and Forecasted Urea Production Capacity in the PRC



Source: CNCIC Report

Based on a utilisation rate of 90%, the CNCIC Report estimates the PRC's annual urea production capacity in 2013 will be approximately 77.8 million tonnes of urea, which is higher than production capacity levels in 2012. According to the CNCIC Report, over the next few years, as urea production projects develop, urea production will continue to increase, though at a controlled and moderate rate. The CNCIC Report estimates annual urea production capacity by 2017 will be approximately 81.1 million tonnes.

Urea production volume and consumption

Since 2000, the PRC has built and expanded many urea projects and its urea production volume has increased rapidly. From 2000 to 2012, the PRC's urea production volume increased from approximately 30.7 million tonnes to approximately 65.3 million tonnes (actual quantity), indicating an annual average increase of approximately 2.8 million tonnes. It is estimated that the PRC'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 the PRC's urea production volume will be approximately 77.8 million tonnes in 2013 and approximately 78.6 million tonnes in 2014.

As urea is the leading variety of nitrogen fertiliser, urea production volume accounts for approximately 55 to 60% of the total nitrogen fertiliser production volume in the PRC and its consumption accounts for over 60% of nitrogen fertiliser consumption. Therefore, nitrogen fertiliser consumption should reflect the demand of urea to a certain extent.

The table below sets forth the top-10 nitrogen fertiliser consuming provinces in the PRC in 2012. The top three nitrogen fertiliser consuming provinces are Henan Province, Shandong Province and Jiangsu Province.

The PRC's Top 10 Nitrogen Fertiliser Consuming Provinces in 2012 (pure nutrient content base)

Rank	Province	'000 tonnes
1	Henan	4,140
2	Shandong	3,650
3	Jiangsu	2,720
4	Anhui	2,520
5	Hunan	2,390
6	Hubei	2,300
7	Hebei	2,250
8	Sichuan	1,910
9	Guangdong	1,470
10	Heilongjiang	1,320

Source: CNCIC Report

The PRC does not have significant levels of urea imports, and in 2012, the PRC only imported 171,000 tonnes of urea. The low levels of urea imports are primarily a result of the following factors: (a) domestic market prices are generally lower than international market prices; (b) the PRC government has established quotas for the permitted quantity of imports of urea; and (c) the PRC government has generally established high tariffs. These three factors have historically made it difficult for foreign urea producers to enter the PRC market. Since 2012, due to the gradual recovery of urea market demand, the international market price for urea has been on the rise and with the growth of the PRC's urea production capacity, PRC urea exports are increasing.

The table below sets forth the production volume, import, export and apparent consumption of urea in the PRC from 2000 to 2012.

Urea Production Volume, Import, Export, Apparent Consumption in the PRC ('000 tonnes, actual quantity)

Year	Production volume ('000 tonnes, actual quantity)	Import ('000 tonnes, actual quantity)	Export ('000 tonnes, actual quantity)	Apparent consumption ('000 tonnes)	Annual growth (%)	Self-sufficient ratio (%)
2000	3,027	0.003	96.1	2,930.9	-0.3	103.3
2001	3,163	0.002	127.1	3,035.9	3.4	104.2
2002	3,482	79.1	41.3	3,519.8	15.9	98.9
2003	3,635	13.9	273.0	3,375.9	-4.1	107.7
2004	4,182	3.8	394.3	3,791.5	12.3	110.3
2005	4,337	7.1	157.1	4,186.7	10.4	103.6
2006	4,854	3.8	136.7	4,721.0	12.8	102.8
2007	5,404	0.05	525.7	4,878.4	3.3	110.8
2008	5,633	0.01	435.9	5,197.1	6.5	108.4
2009	6,375	3.9	337.9	6,041.0	16.3	105.5
2010	5,470	1.33	702.6	4,768.7	-21.1	114.7
2011	5,776	0.2	355.9	5,420.3	13.7	106.6
2012	6,530	17.1	694.8	5,852.3	8.0	111.6

Source: CNCIC Report

Urea producers in the PRC

According to the CNCIC Report, as of the end of 2012, there were approximately 172 urea producers, mainly located in East China, North China and South-western regions. There were approximately 20 urea producers with a single-plant production capacity of 1,000,000 tonnes per annum or above, 35 producers with a single-plant production capacity of 500,000-1,000,000 tonnes per annum, 42 producers with a single-plant production capacity of 300,000-500,000 tonnes per annum and 75 producers with a single-plant production capacity of less than 300,000 tonnes per annum. The Group ranks fourth among coal-based urea producers in 2012 in the PRC in terms of production capacity. Key urea producing provinces include Shandong, Shanxi, Xinjiang, Henan and Sichuan. The top-three producing provinces, Shandong, Shanxi, and Xinjiang, accounted for approximately 34.4% 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 2012, the average production cost of coal-based urea producers is relatively higher than that of natural gas based urea producers. According to the CNCIC Report, in December 2012, the average urea production costs of large-scale coal-based urea producers, small-scale coal-based urea producers and natural gas-based urea producers in the PRC were approximately of RMB1,420-1,550, RMB1,700-1,800, and RMB1,080-1,600 per tonne, respectively. There is almost no urea produced from crude oils in China now.

The table below sets forth the top-10 urea producing provinces in the PRC in 2012.

The PRC's Top-10 Urea Producing Provinces in 2012

Rank	Province	Proportion of urea output (%)
1	Shandong	15.5
2	Shanxi	11.0
3	Henan	8.9
4	Sichuan	6.8
5	Xinjiang	7.0
6	Hubei	5.8
7	Jiangsu	4.7
8	Anhui	4.5
9	Hebei	4.8
10	Inner Mongolia	3.2
11	Guizhou	3.1

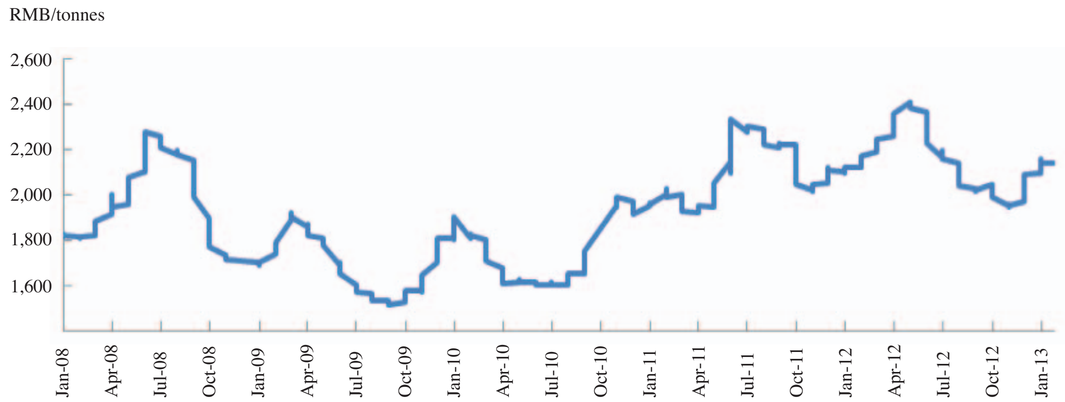
Source: CNCIC Report

Historical price movement of urea

The market price of urea is subject to fluctuation and is affected by various factors, including raw material costs, demand and supply changes and global market conditions. In the fourth quarter of 2008, the market price of urea in the PRC dropped due to a reduction of domestic demand and the impact of the global financial crisis. Beginning in 2009, the average selling price of urea in the PRC fluctuated within a small range. In the first quarter of 2010, the urea average selling price was approximately RMB1,750 per tonne. In the second quarter of 2010, the urea average selling price declined significantly to approximately RMB1,550 per tonne due to weak demand as a result of adverse weather conditions. The urea average selling price remained low throughout the third quarter of 2010. Since the fourth quarter of 2010, the urea average selling price has begun to rise substantially. As of December 2010, the average selling price of urea reached RMB2,060 per tonne. During the period from 2011 to 2012, the selling price of urea continued to rise and fluctuated in the range of RMB1,950 and RMB2,250. There were three main reasons for the increase. First, there was a substantial increase in the price of anthracite coal due to a reduced coal supply accompanied by an increased demand for coal, which pushed up the production costs of the PRC's coal-based urea producers. Similarly, in the first half of 2010, the NDRC increased the price of natural gas by more than 30% which in turn increased the production costs of natural gas-based urea producers in the PRC. Second, the enforcement of energy conservation and emissions reduction in the second half of 2010 affected the operating rate of domestic urea producers, leading to a year-on-year decline of 14% in the domestic urea output in 2010. Third, the PRC's exports of urea reached a record high of 7.03 million tonnes in 2010. Fourth, it also attributes to the recovery of the global economy. The reduction of urea production and the rise of urea exports led to a shortage of urea in the domestic market, thus driving up urea prices in the PRC.

The chart below sets forth the urea average factory price in the PRC from the periods indicated.

Urea Average Factory Price in the PRC



Source: CNCIC Report

Recent government policy changes

Urea can be produced from coal, natural gas but now is rarely made from crude oil in the PRC. In 2012, approximately 69% and 29.3% of the urea production capacity in the PRC used coal and natural gas, respectively, as feedstock. Natural gas-based urea producers in the PRC 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 has also exercised stringent control over any investments in any new natural gas-based urea facilities.

OVERVIEW OF THE PRC'S COMPOUND FERTILISER INDUSTRY

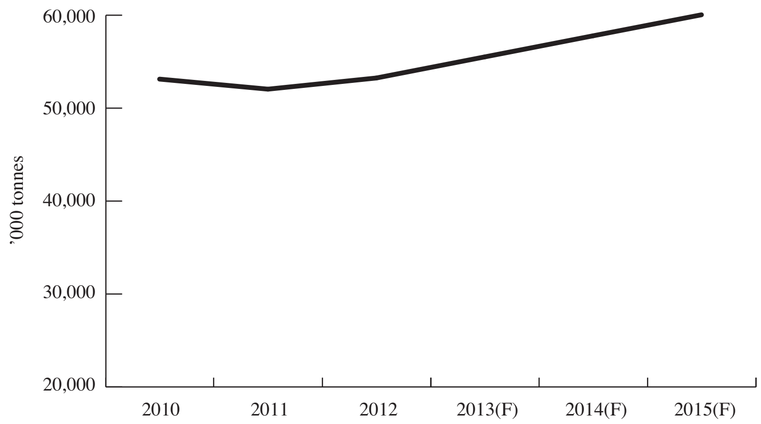
Compound fertiliser comprises at least two of the three primary fertiliser ingredients, nitrogen, phosphorus and potassium. It contains a higher level of nutrients with balanced supply of nutrient components as compared to single element fertilisers. In addition, different types of soil and crops require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

Compound fertiliser production volume

Since 2003, the PRC'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 soared and high fertiliser price forced farmers to reduce their compound fertiliser consumption. The compound fertiliser market began to recover in 2009 and continued to grow by 9.4% in 2010 and the compound fertiliser volume in the same year reached approximately 5.3 million tonnes. In 2011 and 2012 the compound fertiliser production volumes in the PRC were relatively stable. According to the CNCIC Report, notwithstanding the abnormality in the growth rate of the compound fertiliser production volume in the PRC in 2008, 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 5% for the period from 2013 to 2015, and the compound fertiliser volume is estimated to reach 60 million tonnes in 2015.

The charts below sets forth the historical compound fertiliser production volume in the PRC from 2006 to 2012 and the forecast of compound fertiliser production volume in the PRC for the period from 2013 to 2015.

Compound Fertiliser Production Volume in the PRC



Source: (1) China Phosphate Fertiliser Industry Association, (2) CNCIC Report

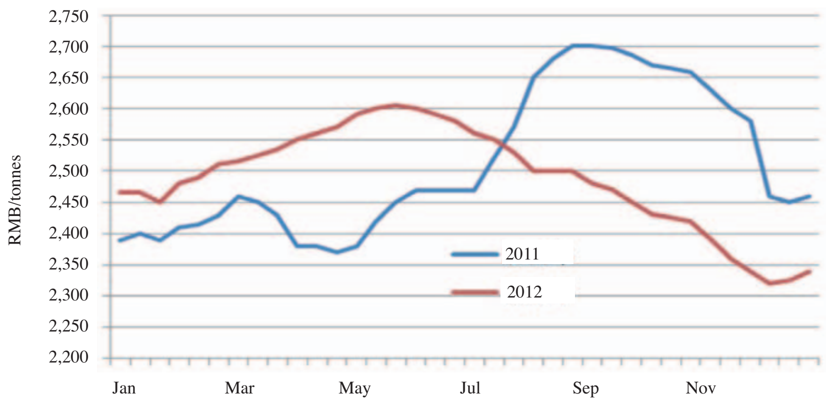
Since 2008, the PRC has been capable of producing approximately 200 million tonnes of compound fertiliser per year. Its actual output was only approximately 53.08 million tonnes in 2010, representing a utilisation rate of approximately 30%. Production volume of compound fertiliser in the PRC was stable in 2011 and 2012 with the actual output of compound fertiliser in 2012 of 53.20 million tonnes.

Historical prices of compound fertiliser

The prices of compound fertiliser are primarily determined by the general supply and demand conditions and raw material costs. Fluctuation in raw material costs resulted in greater variation in compound fertiliser prices from January 2008 to January 2009.

The chart below sets out the price fluctuations of compound fertiliser in the PRC in 2011 and 2012.

Historical Compound Fertiliser Price in the PRC



Source: CNCIC

Compound fertiliser outlook

The PRC compound fertiliser industry has developed rapidly over the past few years. According to the CNCIC Report, the PRC's fertiliser industry will develop towards having large-scale fertiliser producers that produce specialised compound fertilisers and conduct fertiliser application in a scientific way. Those high-cost enterprises will be less competitive and with cost saving advantages, will be encouraged to expand their output and capacity. The PRC's total production volume of compound fertiliser was over 53 million tonnes in 2012, which was relatively stable compared to that in 2011. According to the CNCIC Report, the output of compound fertiliser will continue to grow, driven by agricultural production and increasing use of compound fertilisers rather than single nutrient fertilisers. The growth rate is expected to be rapid in the earlier stage and to remain stable in the later stage, with the average growth rate decreasing to 5% or below. The output of compound fertiliser in 2015 is estimated to be up to 60 million tonnes.

OVERVIEW OF THE PRC'S METHANOL INDUSTRY

Methanol is an important material for the organic chemical industry and is used as raw material for the production of formaldehyde, methyl tertbuylether, 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 the 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 2012, the PRC's methanol production capacity reached approximately 51.4 million tonnes, with an increase of approximately 7.1% compared with that of 2011. And the PRC's methanol actual output in 2012 was up to 25.86 million tonnes, representing an increase of approximately 16.1% compared with that in 2011. However, the consumption of PRC's methanol was 30.79 million tonnes for the same year, only with an increase of 10.1% compared with that in the preceding year.

The table below sets forth the production capacity, consumption volume, production volume, import and export of methanol in the PRC between 2006 and 2012.

Methanol Production Capacity, Consumption Volume, Production Volume, Import and Export in the PRC
('000 tonnes)

Year	Production capacity	Consumption volume	Production volume	Import	Export
2006	13,650	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
2009	26,280	16,608	11,334	5,288	14
2010	38,400	20,917	15,740	5,189	12
2011	48,000	27,950	22,267	5,732	44
2012	51,400	30,790	25,856	5,001	67

Source: CNCIC

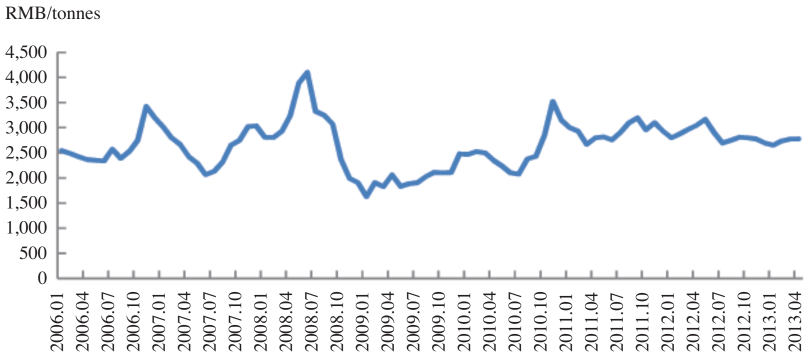
In 2008, international methanol prices dropped which led to an increased quantity of methanol imports into the PRC. The greater volume of methanol imports resulted in an oversupply of methanol in the domestic market which had the effect of increasing the level of competition among the PRC methanol suppliers.

In the PRC, coal is the main raw material for methanol production, followed by natural gas and coke oven gas. As of 2012, among all 271 domestic methanol producers, production based on coal, natural gas and coke oven gas accounted for approximately 67%, 5% and 28%, respectively, of total methanol production capacities in the PRC. In 2012, the methanol production of six provinces, Shandong, Inner Mongolia, Henan, Shaanxi, Shanxi and Ningxia, accounted for 61% of the total production of the PRC.

Historical price movement of methanol

As methanol can be produced from coal, natural gas and coke oven gas, its prices are volatile and highly affected by costs of coal, natural gas and coke oven gas, overall demand and supply conditions in the PRC and 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 the PRC for the period from January 2006 to April 2013.

Methanol Price in the PRC during January 2006 to April 2013



Source: CNCIC

Methanol outlook

Following the rapid development of the methanol industry in the last six years, the total annual production volume of methanol in the PRC has grown from approximately 7.62 million tonnes in 2006 to approximately 25.86 million tonnes in 2012. 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.

POLICIES RELATING TO THE FERTILISER INDUSTRY IN THE PRC

Relevant Agricultural Policies

Since 2004, the PRC government has established a policy known as "Agriculture, Farmers and Rural Areas", which sets forth such categories as a strategic focus of the PRC government's fiscal expenditure. Investment from the PRC government into "Agriculture, Farmers and Rural Areas" increased from more than RMB262.6 billion in 2004 to RMB1,228.7 billion in 2012. In 2011 during the PRC legislative sessions, the PRC government stated that "Agriculture, Farmers and Rural Areas" will remain a priority for PRC policy, and ample food supply through domestic agricultural production will be a primary objective for the year. The PRC government stated that it intends to support the most crop producing geographic areas to increase production of cotton, oil crops, sugar crops and other mass products. In 2011 and 2012, the PRC government continued to intensify the efforts to support agriculture, which included the following measures:

(1) On 29 January 2011, the PRC government officially published a policy paper, the "Decision of the Central Committee of the Communist Party of the PRC and the State Council on Accelerating Reforms and Development of Water Conservation". This policy paper reported the need for water conservation in the PRC and has linked it to the PRC's economic security, ecological security and national security. Increased policy focus on water conservation will benefit the agricultural

industry as water conservation will help to ensure food security and will help boost the fertiliser demand in areas in the PRC, especially in central and western China, where fertiliser is still under-utilised due to poor irrigation facilities. In 2012 and 2013 the No. 1 central policies of the PRC government continued to promote the agricultural development.

(2) The PRC government continues to increase subsidies to farmers. Since the PRC has reduced the agricultural tax and increased subsidies for planting grains in 2004, the national grain production has increased for five consecutive years. In particular, new subsidies will favour geographic areas with significant agricultural yield, key cultivars, professional farming family businesses and professional farmer cooperatives. The subsidy amount offered by the central PRC government in 2012 was RMB162.8 billion, representing an increase of 15.8% compared with that in 2011. In 2012, the food direct subsidies and agricultural material subsidies accounted for RMB98.6 billion. While in January 2013, the government's subsidy for grain and farming assets amounted to RMB122.1 billion, with an increase of 24% compared with that in 2012.

(3) In order to keep grain price at reasonable levels, stimulate farmers' initiatives to plant grain and promote stable levels of food production, the PRC government has decided to continue implementing the policy of purchasing grains at set prices in major rice-yielding areas, and further increase the minimum grain purchase price. The minimum grain purchase prices of rice and wheat produced in 2012 were increased to RMB120-140/50 kilograms and RMB102/50 kilograms, respectively (from RMB70-75 and RMB69-72 in 2007).

(4) The PRC government permits land use rights to be transferred and as a result, the CNCIC Report estimates that a number of new large grain planting households, culturists, new-typed agricultural economic cooperative organisations and farms will emerge and expand, bringing new vitality to the fertiliser market.

Guidance of Future Policies for the Fertiliser Industry in the PRC

Fertiliser is a significant agriculture-supporting product, which plays an important role in the PRC's national economy. The CNCIC Report indicates that policies for the fertiliser industry in the PRC will be guided by ensuring that domestic agricultural needs are met and keeping market prices reasonable. The following list highlights certain PRC government measures relating to the fertiliser industry:

(1) During the Twelfth Five-Year Plan, the growth of industries will be systematically controlled to eliminate enterprises that are energy-inefficient, highly polluting and that have serious potential safety hazards. The PRC government will support industry producers, distributors and energy manufacturers to form enterprise groups, forming an industrial structure with large-sized enterprises as the core. In accordance with the requirements of the Twelfth Five-Year Plan, the PRC government will strictly control the approval of new nitrogen projects in the next three to five years. The expansion of capacity in the fertiliser industry in the PRC will be carried out by way of merger, reorganisation and consolidation.

(2) In 2012, the PRC government continued to impose the seasonal export tariff. If the export price exceeds the base price, the export tariff in the off-peak season will increase accordingly to ensure better domestic supplies. Going forward, the relevant departments concerned will formulate more flexible fertiliser import and export policies in accordance with market conditions.

(3) The CNCIC Report indicates that the PRC is expected to endeavour to conduct energy saving and emission reduction technology transformation as well as cleaner production technology transformation, develop and utilise advanced technologies with proprietary intellectual property rights.

(4) Since 2009, the PRC government abolished its price ceilings for fertiliser, yet temporarily maintained the preferential policies; in 2009-2010, the prices of domestic natural gas, electricity and railway transportation went up in succession. It is estimated that with increasing focus on establishing a free market in the PRC, the government's preferential policies relating to gas, electricity and transportation will be gradually removed.

(5) The Chinese fertiliser industry (except for MAP and DAP fertiliser products) has enjoyed VAT exemption since 1994. MAP products have enjoyed VAT exemption since 1 January 1998 and DAP products have enjoyed VAT exemption since 1 January 2008.

(6) The electricity used by the PRC fertiliser industry is RMB0.10-0.30/kWh less than that of heavy industry, and RMB0.05-0.10/kWh less than that of the industries such as those yellow phosphorus and calcium carbide. It is not uncommon for the PRC government to provide electricity price limits for industrial use.

(7) Railway transportation of Chinese fertiliser enjoys preferential freight rates. The current preferential rate (published in February 2013) is determined as follows:

Freight rate = base price 1 (RMB7.90/tonne) + base price 2 (RMB0.0651/tonne km) * the distance in kilometres

(8) From 2002 until present, in accordance with a series of agreements signed in connection with the PRC joining the WTO, the PRC has imposed a tariff on imported fertiliser. The PRC continues to impose seasonal tariffs on urea exports in 2013: the provisional tariff for urea exports is RMB2,100 per tonne in the off-peak season (July to October) and RMB2,260 per tonne in the peak season (January to June and November to December).

(9) In order to resolve the conflict between continuous annual production of fertilisers and the seasonal utilisation thereof as well as to stabilise the price of fertiliser, the PRC government has implemented fertiliser reserve policies in the off-peak season since the end of 2004. In 2010 and 2011, the PRC government increased the reserve in the off-peak season to 16 million tonnes, among which the reserve for urea was not less than 40%, and was reserved by more than 70 fertiliser distributors and manufacturers. The period of reserve has been increased from 6 months to 7 months. In 2011 and 2012, the urea reserve in the PRC in the off-peak season remained 16 million tonnes.

(10) Since the PRC has launched a government-funded project of soil testing and formulated fertilisation, the funds for the project have increased from RMB200 million in 2005 to RMB950 million in 2010. Covering more than two-thirds of the PRC's agricultural counties, the area of the recommendation of soil testing and formulated fertilisation has reached 1.2 billion Mus (1 Mu =0.0667 hectares) in 2012. The crops fertilised with the technology of soil testing and formulated fertilisation are also increasing; these crops were field crops in the past, and since 2008, the Ministry of Agriculture has implemented soil testing and formulated fertilisation for cash crops. The PRC government has stated it will intensify efforts to support soil testing and formulated fertilisation by progressively extending the areas subsidised, reducing farmers' expenses and reducing environmental pollution.

CORPORATE STRUCTURE

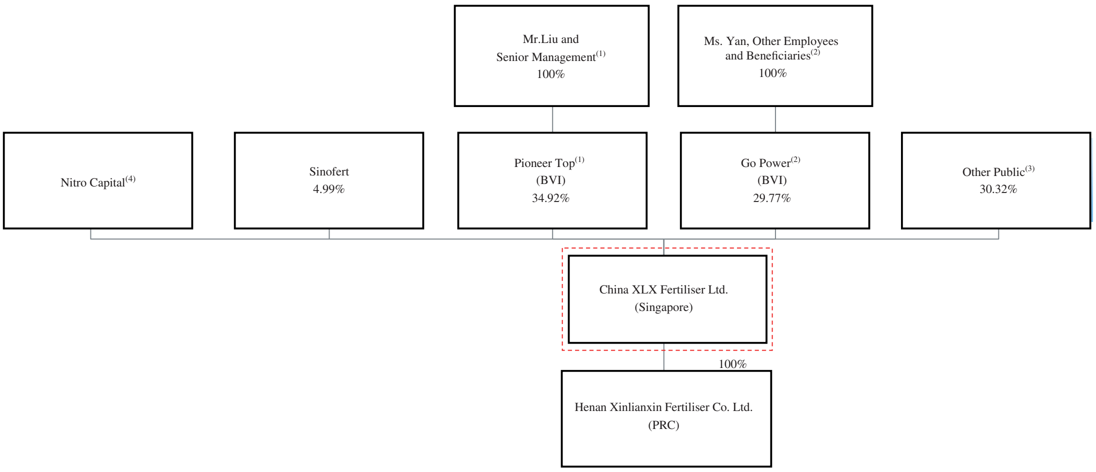
China XLX Fertiliser Ltd. was incorporated with limited liability on 17 July 2006 in Singapore under the Companies Act (Chapter 50) of Singapore with its registered office at 80 Robinson Road, #02-00 Singapore 068898. The Company's headquarters and principal place of business are located in Xinxiang High Technology Development Zone, Henan Province of the PRC. Its principal activity is investment holding.

Henan XLX Fertiliser is a PRC-incorporated limited liability company that is a wholly-owned subsidiary of the Company. Its principal activities are manufacturing, selling and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution. It is the only operating subsidiary of the Company.

The Group's fertiliser business can be traced back to 1969 when Xinxiang Factory was established as a state-owned enterprise in Xinxiang, Henan Province to produce synthetic ammonia. In 1994, Xinxiang Factory launched the "Urea Conversion Project" and shifted from synthetic ammonia production towards urea production. In 2000, the factory added a chemical fertiliser production line. On 18 August 2003, the Xinxiang Factory legal entity, a state-owned enterprise, was restructured, and Xinlianxin Chemicals Group ("XLX Chem") was established as a private joint-stock enterprise to run the Xinxiang Factory. In July 2006, both the Company and Henan XLX Fertiliser were incorporated, and the Company now operates its business through Henan XLX Fertiliser.

The Company has been listed on the main board of Singapore Exchange Securities Trading Limited since 20 June 2007 (stock code: B9R.SI) and the main board of The Hong Kong Stock Exchange Limited since 8 December 2009 (stock code: 1866.HK).

The following chart reflects the shareholding structure of China XLX Fertiliser Ltd. as of 31 March 2013.



Notes

1. Pioneer Top Holdings Limited. Mr. Liu Xingxu, the Company's chairman and chief executive officer, beneficially owns approximately 42% of the equity interest in Pioneer Top and holds approximately 58% of the equity interest in Pioneer Top as trustee for seven beneficiaries who are senior management of the Company.
2. Go Power Investments Limited. Ms. Yan Yunhua, the Company's executive director and chief financial officer beneficially owns approximately 12.74% of the equity interest in Go Power and holds approximately 87.26% of the equity interest as trustee for a total of 1,463 beneficiaries who are mostly employees of the Company.
3. Inclusive of 300,000 shares held by Ms. Yan, 100,000 shares held by Mr. Joshua Ong, one of the Company's independent non-executive directors and 600,000 shares held by Mr. Liu.
4. Nitro Capital Limited. A wholly-owned subsidiary of Primavera Capital that invested US$51 million in convertible bonds issued by the Company on December 21, 2011. Nitro Capital Limited will hold approximately 14.97% of the Company's issued shares as enlarged by the number of shares to be issued upon full conversion of the convertible bonds.

The following table presents the selected historical financial data of the Group as of and for the years ended 31 December 2010, 2011 and 2012, all of which is derived from the audited consolidated financial statements of the respective periods, and the summary historical financial data of the Group as of and for the four months ended 30 April 2013, which is derived from the unaudited condensed consolidated financial information of that period. The selected historical financial data should be read in conjunction with the audited consolidated financial statements as of and for the years ended 31 December 2010, 2011 and 2012 and the unaudited condensed consolidated financial information as of and for the four months ended 30 April 2013, including the related notes, included elsewhere in this Offering Circular. The audited financial statements of the Group are prepared and presented in accordance with SFRSs. The financial information for the four months ended 30 April 2013 has been prepared in accordance with the recognition and measurement principles of SFRSs. The financial position and results of operations of the Group as of and for the four months ended 30 April 2013 should not be taken as an indication of the expected financial position and results of operations for the full year ending 31 December 2013. The April 2012 Financial Information set forth below are based on its internal management accounts for the relevant period, and has not been reviewed or audited by the Company's independent auditors. Accordingly, such information should not be relied upon by investors to provide the same quality associated with information that has been subject to an audit or a review. None of the Managers, the Trustee, the Agents or any of their respective affiliates, directors or advisors makes any representation or warranty, express or implied, regarding the sufficiency of such consolidated financial results for an assessment of, and potential investors must exercise caution when using such data to evaluate, the Group's financial condition and results of operations. See also "Risk Factors — Risks relating to the Group's business — The April 2012 Financial Information of the Group contained in this Offering Circular has not been audited or reviewed by the Group's independent auditors".

Selected Consolidated Statements of Comprehensive Income

	Year ended 31 December			Four months ended 30 April	
	2010	**2011**	**2012**	**2012**	**2013**
		(RMB '000)		(RMB '000)	
		(Audited)		(Unaudited and unreviewed)	(Unaudited)
Revenue	**2,851,403**	**3,688,233**	**3,945,584**	**1,367,851**	**1,336,514**
Cost of sales	(2,487,342)	(3,181,860)	(3,225,942)	(1,151,993)	(1,029,805)
Gross profit	**364,061**	**506,373**	**719,642**	**215,858**	**306,709**
Other income, net	8,203	3,961	6,693	5,319	5,324
Selling and distribution expenses	(38,686)	(70,500)	(69,462)	(21,122)	(22,679)
General and administrative expenses	(104,150)	(136,059)	(202,493)	(60,208)	(78,930)
Finance costs	(53,447)	(78,930)	(82,359)	(27,041)	(24,499)
Profit before tax	**175,981**	**224,845**	**372,021**	**112,806**	**185,925**
Income tax expense	(31,410)	(44,337)	(61,020)	(17,272)	(29,266)
Profit for the year/period	**144,571**	**180,508**	**311,001**	**95,534**	**156,659**

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000)		(RMB '000)	
		(Audited)		(Unaudited and unreviewed)	(Unaudited)
Other comprehensive income					
Available-for-sale investment:					
Change in fair value	—	(16,073)	(1,004)	1,959	4,326
Reclassification adjustment for impairment loss included in profit or loss	—	16,073	1,004	—	—
Other comprehensive income for the year/period, net of tax	—	—	—	1,959	4,326
Total comprehensive income for the year/period	144,571	180,508	311,001	97,493	160,985
Profit attributable to:					
Owners of the parent	144,571	180,508	311,121	95,534	157,157
Non-controlling interest	—	—	(120)	—	(498)
	144,571	180,508	311,001	95,534	156,659
Total comprehensive income attributable to:					
Owners of the parent	144,571	180,508	311,121	97,493	161,483
Non-controlling interest	—	—	(120)	—	(498)
	144,571	180,508	311,001	97,493	160,985
Earnings per share attributable to ordinary equity holders of the parent (RMB cents per share)					
Basic and diluted	14.46	17.96	26.46	8.1	13.4

Selected Consolidated Statements of Financial Position

	31 December			30 April
	2010	2011	2012	2013
		(RMB '000) (Audited)		(RMB '000) (Unaudited)
Non-current assets				
Property, plant and equipment	2,414,545	2,542,168	3,019,025	3,672,216
Prepaid land lease payments	89,860	89,165	175,290	174,009
Goodwill	—	6,950	6,950	6,950
Coal mining right	—	41,763	41,955	41,427
Available-for-sale investment	21,778	—	7,500	7,500
Referred tax assets	—	—	4,706	4,706
Prepayments for purchases of items of plant and equipment	4,098	216,822	721,626	685,589
Total non-current assets	**2,530,281**	**2,896,868**	**3,977,052**	**4,592,397**
Current assets				
Due from a related company	—	—	1,760	2,128
Available-for-sale investment	—	5,705	4,701	9,027
Inventories	353,922	593,114	432,366	348,191
Trade receivables	13,567	28,725	15,520	24,696
Bills receivable	18,720	2,050	1,740	1,650
Prepayments	73,957	116,533	140,630	121,643
Deposits and other receivables	7,461	13,339	49,080	105,643
Derivative financial assets	—	—	—	—
Income tax recoverable	15,895	7,263	3,858	2,959
Pledged deposits	18,780	10,000	12,900	12,900
Cash and cash equivalents	162,773	514,098	477,610	462,311
Total current assets	**665,075**	**1,290,827**	**1,140,165**	**1,091,148**
Total assets	**3,195,356**	**4,187,695**	**5,117,217**	**5,683,545**
Current liabilities				
Due to related companies	723	163	135	4,616
Trade payables	40,152	120,843	110,773	75,030
Bills payable	37,500	—	25,800	25,800
Accruals and other payables	265,049	336,373	422,437	564,279
Income tax payable	—	864	4	4
Deferred grants	3,960	3,465	3,596	3,596
Interest-bearing bank and other borrowings	200,000	541,000	172,000	178,250
Short-term bond payable	—	—	300,000	300,000
Total current liabilities	**547,384**	**1,002,708**	**1,034,745**	**1,151,575**
Net current assets/(liabilities)	**117,691**	**288,119**	**105,420**	**(60,427)**
Total assets less current liabilities	**2,647,972**	**3,184,987**	**4,082,472**	**4,531,970**
Non-current liabilities				
Referred grants	—	—	23,474	25,980
Interest-bearing bank and other borrowings	1,023,411	1,067,091	1,679,485	2,028,612
Deferred tax liabilities	35,071	56,219	51,081	50,961
Total non-current liabilities	**1,058,482**	**1,123,310**	**1,754,040**	**2,105,553**
Total liabilities	**1,605,866**	**2,126,018**	**2,778,785**	**3,257,128**
Net assets	**1,589,490**	**2,061,677**	**2,328,432**	**2,426,417**
Equity attributable to owners of the parent				
Issued capital	836,671	836,671	836,671	836,671
Convertible bonds	—	321,996	322,436	327,235
Statutory reserve fund	110,678	133,655	167,873	184,569

	31 December			30 April
	2010	2011	2012	2013
		(RMB '000)		(RMB '000)
		(Audited)		(Unaudited)
Available for sale investment revaluation reserve	—	—	—	4,326
Retained profits	612,141	732,355	931,222	1,066,884
Proposed final dividend	30,000	37,000	63,000	—
	1,589,490	2,061,677	2,321,202	2,419,685
Non-controlling interest	—	—	7,230	6,732
Total equity	**1,589,490**	**2,061,677**	**2,328,432**	**2,426,417**
Total equity and liabilities	**3,195,356**	**4,187,695**	**5,117,217**	**5,683,545**

Selected Consolidated Statements of Cash Flows

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000)		(RMB '000)	
		(Audited)		(Unaudited and unreviewed)	(Unaudited)
Net cash inflow from operating activities	184,341	179,980	665,391	246,841	248,897
Net cash outflow from investing activities	(409,899)	(507,384)	(1,201,027)	(66,067)	(556,573)
Net cash inflow/(outflow) from financing activities	248,535	678,729	499,148	(261,500)	292,377
Net increase/(decrease) in cash and cash equivalents	**22,977**	**351,325**	**(36,488)**	**(80,726)**	**(15,299)**
Cash and cash equivalents at beginning of the year/period	139,796	162,773	514,098	514,098	477,610
Cash and cash equivalents at end of the year/period	162,773	514,098	477,610	433,372	462,311

Other Financial Data

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000)		(RMB '000)	
EBIT(1)	229,428	303,775	454,380	139,847	210,424
EBITDA(2)	397,055	478,179	638,164	199,765	272,360
Capital expenditure	288,860	263,520	757,317	31,156	510,597

Notes:

(1) EBIT means earnings before interest and tax, and is calculated by adding back income tax expense and finance costs to profit for the year/period. EBIT is not a measure of financial performance under generally accepted accounting principles in Singapore and the EBIT measures used by the Company may not be comparable to other similarly titled measures of other companies. EBIT should not necessarily be construed as an alternative to results from operations.

(2) EBITDA means earnings before interest, tax, depreciation and amortisation, and is calculated by adding back income tax expense, finance costs, depreciation and amortisation to profit for the year/period. EBITDA should not be considered by an investor as an alternative to cash flows or results as determined in accordance with generally accepted accounting principles in Singapore. The Company's calculation of EBITDA may differ from similarly titled computations of other companies.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Group's financial position and results of operations should be read in conjunction with the unaudited condensed consolidated financial information of the Group for the four months ended 30 April 2012 and 2013 and the audited consolidated financial statements of the Group for the financial years ended 31 December 2010, 2011 and 2012 and the related notes thereto and included elsewhere in this Offering Circular.

The Group's consolidated financial statements were 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), which may differ in certain material respects from generally accepted accounting principles in other jurisdictions. In this section of this Offering Circular, unless otherwise indicated references to "2010", "2011" and "2012" refer to the Group's financial years ended 31 December 2010, 2011 and 2012, respectively.

Overview

The Company was incorporated in Singapore in 2006 and the principal place of business of the Group is in Henan Province in China. The Company has been listed on the SGX-ST since 20 June 2007 and on the HKSE since 8 December 2009. The Group's principal activities are manufacturing, sales and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution.

According to the CNCIC Report, the Group was the largest urea producer in Henan Province in 2012 in terms of production capacity. As of 31 December 2012, the Group's total annual production capacity of urea, compound fertiliser and methanol was approximately 1.25 million tonnes, 750,000 tonnes and 200,000 tonnes per annum, respectively. The Group's annual urea production volume constitutes about 19.5% of the total annual urea production capacity in Henan Province, which is substantially greater than the second largest urea producer in Henan. The CNCIC Report also reports that the Group is the third largest urea-based compound fertiliser producer in the PRC in terms of production capacity and the sixth largest methanol producer in terms of production volume in Henan Province.

The Group is also a highly efficient producer of urea. According to the CNCIC Report, the Group's urea production cost in 2012 was the lowest in Henan Province at RMB1,474 per tonne, which was also lower than the national average of RMB1,773 per tonne for all coal-based urea producers. The Group also benefits from a number of important cost advantages.

Firstly, the Group's headquarter and production facilities are strategically located near Zhengzhou city in Henan Province, which is one of the PRC's major transportation hub and has one of the highest fertiliser consumption in the PRC, and is well-supported by a comprehensive network of railways and highways. The Group is able to source the coal it uses in its production processes from within Henan Province and from the neighbouring coal-rich Shanxi Province. The Group's production facilities are situated near the Yellow River, which provides plentiful water supplies for its production activities. Located in the central part of the PRC, the Group enjoys lower transportation costs and is able to cater to the needs of different customers located in different regions of the PRC, giving it a competitive edge in terms of cost and quality of service.

Secondly, coal is the largest cost component of the Group's urea production, accounting for approximately 57.1% of the Group's cost of sales for urea in 2012. Through the use of advanced production technologies and by benefiting from economies of scale, the Group is able to operate at lower cost per unit compared to its competitors. According to the CNCIC Report, the Group's coal consumption per tonne of urea production in 2012 ranked number three among major coal-based urea producers in the PRC, using on average approximately 630kg of coal to produce one tonne of urea, while the average coal consumption volume among major coal-based urea producers in the PRC was approximately 732.6kg per tonne of urea. The Group has long-term relationships with its coal suppliers which enables it to have a stable and consistent supply of high quality coal. For example, in May 2012 one of the Company's wholly-owned subsidiaries

Henan XLX Fertiliser entered into a three-year sales agreement with Shanxi Asian American-Daning《山西亞美大寧能源有限公司》Energy Co., Ltd., to guarantee anthracite coal supply for its production base in Henan Province. In August 2011, Henan XLX Fertiliser entered into a five-year supply agreement with Henan Coal Chemical Industry Group Co., Ltd., the largest mining group in Henan Province.

Thirdly, electricity is also a major cost component of the Group's production activities. The Group has three in-house power generating systems which offer the Group the flexibility to either purchase electricity from the market or generate its own electricity depending on the market price and availability of power subsidies from the PRC government. The Group currently purchases the majority of its electricity needs from external sources but its own power generators have the capacity to produce about 40% of the Group's current electricity needs.

For 2010, 2011 and 2012, the Group recorded a revenue of approximately RMB2,851 million, RMB3,688 million and RMB3,946 million, respectively, representing a CAGR of approximately 11.4%. During the same period, the Group's profit after tax amounted to approximately RMB145 million, RMB181 million and RMB311 million, respectively. The Group recorded a revenue of approximately RMB1,336.5 million and profit after tax of approximately RMB156.7 million for the four months ended 30 April 2013.

Factors Affecting the Group's Financial Condition and Results of the Group's Operations

The key factors that affect the Group's financial condition and results of operations are as follows:

Demand and supply for the Group's products

The Group's revenue is affected by market demand and supply for the Group's products in the PRC.

Market demand for fertiliser products depends largely on key factors such as general economic conditions, cyclical trends in the end-consumer market, agricultural requirements for fertiliser, government policies for the agricultural industry and weather conditions in the PRC. With the commencement of the Twelfth Five-Year Plan in 2011, the Company believes the process of urbanisation will continue to accelerate and will increase the demand for food in urban areas which will in turn increase the demand for fertiliser products. As the fertiliser industry is a key component to agricultural production, the Company believes the government will continue to provide support for the fertiliser industry. According to the CNCIC Report, demand for agricultural urea is expected to annually grow approximately at 8% until 2015. In addition, the PRC has implemented certain policies, including the Twelfth Five-Year Plan, encouraging growth in the compound fertiliser industry and enlarging the market for compound fertiliser. As a result of these policies and general trends, the Company expects a steady growth in demand for fertiliser in the next five years.

Market supply for fertiliser products depends largely on the number of fertiliser producers and their production capacities, utilisation rates and operating margins, as well as government policies in respect of the fertiliser industry in the PRC. The Company expects that the increasing cost of coal, increasing fixed costs of production facilities, as well as the rising barriers to entry in the urea industry due to the high energy requirements, limitations on available feedstock and the PRC government's minimum production capacity requirements, will force out smaller and weaker players in the urea and compound fertiliser industry.

Demand for methanol in the PRC depends largely on market demand for it as a raw material for the production of chemical products and methanol fuel. However, according to the CNCIC Report, there has been excess supply of methanol in the PRC in recent years, in part contributed to by low-cost methanol imports from the Middle East, and as a consequence methanol prices have remained low. Given the level of excess supply in the methanol market, the Company does not currently expect there to be significant growth opportunities in the domestic methanol production market.

See also "Business — Competition" for further details.

Cost of raw materials

As the cost of raw materials represents a major portion of the Group's cost of sales, any fluctuation in the prices of raw materials may have significant impact on the Group's profitability. In particular, in recent years the price of coal has been increasing, resulting in rising costs for the Group's raw materials. Coal is the largest cost component of the Group's urea production costs, accounting for approximately 57.1% of the Group's cost of sales for urea in 2012. In 2012, the cost of coal used in the Group's production was approximately RMB1,595 million, amounting to approximately 49.4% of the Group's total cost of sales.

Production utilisation and production volume

The Group's revenue is affected by the production utilisation rates at its production plants. Such production utilisation rates depend on market demand and supply as well as the efficiency of the production process.

Increases or decreases in the Group's production utilisation rates may have a significant effect on production volumes, unit costs and gross profit margins. The Group has three production lines for urea, two production lines for compound fertiliser and three production lines for methanol. See "Business — Production Facilities and Capacity" for further details.

The table below sets out the Group's production capacity, production volume and utilisation rates for the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2012 and 2013. The Group's maximum annual production capacity for each of urea, compound fertiliser and methanol is measured by multiplying the daily production capacity by 340 days. Any suspension of production whether due to planned repair or maintenance or unplanned interruption as a result of natural disasters may have a significant impact on utilisation rates, which in turn could adversely impact the Group's results of operations.

	Year ended 31 December								
	2010			2011			2012		
	Production Capacity	Production Volume	Utilisation Rate	Production Capacity	Production Volume	Utilisation Rate	Production Capacity	Production Volume	Utilisation Rate
	('000 tonnes)		(%)	('000 tonnes)		(%)	('000 tonnes)		(%)
Urea(1)	1,258	1,223	97.2	1,258	1,297	103.1	1,258	1,316	104.6
Compound fertiliser	600	302	50.4	600	409	68.2	750	389	51.9
Methanol	201	195	97.1	201	184	91.5	201	223	110.9

Note:

(1) Production volume for urea includes the production volume of both solid and liquid urea. The Group uses liquid urea that it produces as a key raw material for the production of compound fertiliser, which is reflected in the difference between production volume and sales volume of the Group's urea. For an explanation of the fluctuations between the utilisation rates, please refer to the section entitled "Business — Production Facilities and Capacity" of this Offering Circular.

The table below sets out the annual sales volume of the Group's key products for the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2012 and 2013.

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
	('000 tonnes)			('000 tonnes)	
Urea	1,097	1,168	1,168	407	401
Compound fertiliser	300	354	373	127	131
Methanol	194	183	223	74	78

Average selling prices

The selling prices of the Group's products are primarily determined by their respective market demand and supply, coal prices, the cost of electricity and governmental policies and regulations towards the fertiliser industry in the PRC. Due to the fragmented nature of the industry and the commoditised nature of urea products, most urea producers are price takers with limited price variation due to brand name and product quality.

Summary of Significant Accounting Policies

The financial information set out in the Independent Auditors' Report beginning on page F-1 of this Offering Circular has been prepared in accordance with SFRSs. The preparation of the 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 significant 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 Company believes that the following significant accounting policies involve the most significant judgements and estimates used in the preparation of the financial information. See also the significant accounting policies that are set forth in Note 3 and Note 4 of the audited consolidated financial statements for the years ended 31 December 2011 and 2012 starting on page F-1 of this Offering Circular.

Summary of Results of Operations

The table below sets out the Group's selected results of operations for the periods indicated.

	Year ended 31 December			Four months ended 30 April	
	2010	2011	2012	2012	2013
		(RMB '000)		(RMB '000)	
		(Audited)		(Unaudited and unreviewed)	(Unaudited)
Revenue	**2,851,403**	**3,688,233**	**3,945,584**	**1,367,851**	**1,336,514**
Cost of sales	(2,487,342)	(3,181,860)	(3,225,942)	(1,151,993)	(1,029,805)
Gross profit	**364,061**	**506,373**	**719,642**	**215,858**	**306,809**
Other income/(expenses)	8,203	3,961	6,693	5,319	5,324
Selling and distribution expenses	(38,686)	(70,500)	(69,462)	(21,122)	(22,679)
General and administrative expenses	(104,150)	(136,059)	(202,493)	(60,208)	(78,930)
Finance costs	(53,447)	(78,930)	(82,359)	(27,041)	(24,499)
Profit before tax	**175,981**	**224,845**	**372,021**	**112,806**	**185,925**
Income tax expense	(31,410)	(44,337)	(61,020)	(17,272)	(29,266)
Profit for the year/period	**144,571**	**180,508**	**311,001**	**95,534**	**156,659**
Other comprehensive income					
Available-for-sale investment:					
Change in fair value	—	(16,073)	(1,004)	1,959	4,326
Reclassification adjustment for impairment loss included in profit or loss	—	16,073	1,004	—	—
Other comprehensive income for the year/period, net of tax	—	—	—	1,959	4,326
Total comprehensive income for the year/period	144,571	180,508	311,001	97,493	160,985
Profit attributable to:					
Owners of the parent	144,571	180,508	311,121	95,534	157,157
Non-controlling interest	—	—	(120)	—	(498)
	144,571	180,508	311,001	95,534	156,659
Total comprehensive income attributable to:					
Owners of the parent	144,571	180,508	311,121	97,493	161,483
Non-controlling interest	—	—	(120)	—	(498)
	144,571	180,508	311,001	97,493	160,985
Earnings per share attributable to ordinary equity holders of the parent (RMB cents per share)					
Basic and diluted	14.46	17.96	26.46	8.1	13.4

Overview of Major Items of Statements of Comprehensive Income

Revenue

Almost all of the Group's production and sales are carried out in the PRC and the Group's revenue and expenses are denominated in RMB, except for exports which are denominated in USD. The Group's revenue is recognised when goods are delivered and accepted by customers.

The Group's key products are urea, compound fertiliser and methanol, which together accounted for approximately 99.8% of revenue for the four months ended 30 April 2013 and approximately 99.7%, 99.8% and 99.6% of revenue for the years ended 31 December 2010, 2011 and 2012, respectively.

The table below sets forth a breakdown of the Group's revenue by products.

	Year ended 31 December						Four months ended 30 April			
Revenue by Products	**2010**		**2011**		**2012**		**2012**		**2013**	
	(RMB million)	**(%)**	**(RMB million)**	**(%)**	**(RMB million)**	**(%)**	**(RMB million)**	**(%)**	**(RMB million)**	**(%)**
Urea	1,863	65.4	2,409	65.3	2,499	63.3	881	64.4	861	64.4
Compound fertiliser	594	20.8	849	23.0	938	23.8	318	23.2	310	23.2
Methanol	385	13.5	422	11.5	495	12.5	165	12.1	163	12.2
Others(1)	9	0.3	8	0.2	14	0.4	4	0.3	3	0.2
Total	2,851	100.0	3,688	100.0	3,946	100.0	1,368	100.0	1,337	100.0

Note:

(1) "Others" comprises liquid ammonia and ammonia solution.

Cost of sales

The Group's cost of sales includes costs of raw materials (namely anthracite coal, coal powder, electricity, phosphorus, potassium and other raw materials), depreciation, labour cost and other costs, such as repair, maintenance and insurance costs. All of the Group's costs of sales are denominated in RMB.

Selling and distribution expenses

Selling and distribution expenses for the years ended 2010, 2011 and 2012 amounted to approximately RMB38.7 million, RMB70.5 million and RMB69.5 million respectively. The Group's selling and distribution expenses include mainly marketing and advertising expenses, transportation expenses, entertainment expenses and sales staff costs. Selling and distribution expenses was approximately RMB21.1 million for the four months ended 30 April 2012 and remained relatively stable at RMB22.7 million for the four months ended 30 April 2013.

General and administrative expenses

General and administrative expenses for the years ended 2010, 2011 and 2012 and the four months ended 30 April 2013 amounted to approximately RMB104.2 million, RMB136.1 million, RMB202.5 million and RMB78.9 million respectively. The Group's general and administrative expenses include mainly office staff salaries, depreciation and amortisation expenses, insurance, office and administrative expenses, professional fees, transportation expenses, entertainment expenses, renovation and repair expenses, research and development ("R&D") expenses and miscellaneous expenses.

Finance costs

Finance costs for the years ended 2010, 2011 and 2012 amounted to approximately RMB53.4 million, RMB78.9 million, RMB82.4 million, respectively. Finance costs increased due to higher interest rates and an increase in interest-bearing loans and borrowings. Finance costs for the four months ended 30 April 2013 was approximately RMB24.5 million, representing a decrease of about 9.3% from RMB27.0 million for the four months ended 30 April 2012.

Tax

Income tax expenses for the years ended 2010, 2011 and 2012 and the four months ended 30 April 2013 amounted to approximately RMB31.4 million, RMB44.3 million, RMB61.0 million and RMB29.3 million respectively.

For the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013, the Group's effective tax rates were approximately 17.8%, 19.7%, 16.4% and 15.7%, respectively.

Review of Historical Operating Results

Four months ended 30 April 2013 compared to four months ended 30 April 2012

Revenue

Revenue for the four months ended 30 April 2013 decreased by about 2.3% to approximately RMB1,336.5 million from approximately RMB1,367.9 million in the four months ended 30 April 2012. The decrease was mainly due to a decrease in sales of urea, compound fertiliser and methanol, which decreased by about 2.2%, 2.5% and 1.4% from approximately RMB881.1 million, RMB318.4 million and RMB164.7 million respectively for the four months ended 30 April 2012 to approximately RMB861.3 million, RMB310.3 million and RMB162.4 million respectively for the four months ended 30 April 2013.

Cost of Sales

Cost of sales for the four months ended 30 April 2013 decreased by about 10.6% to RMB1,029.8 million from approximately RMB1,152.0 million for the four months ended 30 April 2012 mainly due to a decrease in coal price.

Gross profit margin

The gross profit margin of the Group increased from approximately 15.8% for the four months ended 30 April 2012 to approximately 22.9% for the four months ended 30 April 2013.

Other income, net

Other income, net for the four months ended 30 April 2013 remained relatively stable at approximately RMB5.3 million for the four months ended 30 April 2013 and 30 April 2012.

Selling and distribution expenses

Selling and distribution expenses increased by approximately 7.6% from approximately RMB21.1 million for the four months ended 30 April 2012 to approximately RMB22.7 million for the four months ended 30 April 2013. This was mainly due to the increase of transportation costs which is in line with the increased sales volume for compound fertiliser.

General and administrative expenses

General and administrative expenses increased by approximately 31.1% from approximately RMB60.2 million for the four months ended 30 April 2012 to RMB78.9 million for the four months ended 30 April 2013. The increase was mainly due to an increase in staff costs for the increase in number of employees to be trained for Plant IV and Xinjiang project.

Finance costs

Finance costs decreased by approximately 9.3% from approximately RMB27 million for the four months ended 30 April 2012 to approximately RMB24.5 million for the four months ended 30 April 2013. The decrease was mainly due to a diversification of the Group's financing options which enables it to obtain funding on favourable terms.

Income tax expense

Income tax expense increased by approximately 69.4% from approximately RMB17.3 million for the four months ended 30 April 2012 to approximately RMB29.3 million for the four months ended 30 April 2013 due to higher profits.

Profit for the period

The profit for the period increased by approximately 64.1% from approximately RMB95.5 million for the four months ended 30 April 2012 to approximately RMB156.7 million for the four months ended 30 April 2013. This was mainly due to revenue remaining relatively stable while the Group's cost of sales fell by about 10.6% to RMB1,029.8 million in the four months ended 30 April 2013 compared to RMB1,152.0 million in the four months ended 30 April 2012.

2012 compared to 2011

Revenue

Revenue for the year ended 31 December 2012 increased significantly by about 7% from approximately RMB3,688 million for the year ended 31 December 2011 to approximately RMB3,946 million for the year ended 31 December 2012. The increase was due to the increase in urea and compound fertiliser average selling prices and increase in methanol and compound fertiliser sales volume.

Revenue derived from the sales of urea increased by about 3.7% from approximately RMB2,409 million for the year ended 31 December 2011 to approximately RMB2,499 million for the year ended 31 December 2012. Such increase was mainly due to an increase in average selling price.

Revenue derived from the sales of compound fertiliser increased by about 10.5% from approximately RMB849 million for the year ended 31 December 2011 to approximately RMB938 million for year ended 31 December 2012, primarily due to an increase in sales volume and an increase in average selling price of compound fertiliser.

Revenue derived from the sales of methanol increased by about 17.3% from approximately RMB422 million for the year ended 31 December 2011 to approximately RMB495 million for the year ended 31 December 2012. Such increase was mainly due to the increase in sales quantity partially offset by a decrease in the average selling price of methanol.

Cost of sales

The Group's cost of sales increased by about 1.4% from approximately RMB3,181.9 million in 2011 to approximately RMB3,225.9 million in 2012 as a result of the increase in sales volume of compound fertiliser and methanol compared to 2011.

Gross Profit Margin

The Group's gross profit margin increased from approximately 13.7% in the year ended 31 December 2011 to approximately 18.2% in the year ended 31 December 2012, due to the increase in urea and methanol gross profit margins.

Selling and distribution expenses

Selling and distribution expenses remained relatively stable at approximately RMB69 million for the year ended 31 December 2012 compared to approximately RMB71 million for the year ended 31 December 2011.

General and administrative expenses

General and administrative expenses increased by about 48.5% from approximately RMB136 million for the year ended 31 December 2011 to approximately RMB202 million for the year ended 31 December 2012. This was due mainly to increase in staff cost arising from a wage increase in January 2012 and increase in the number of employees for Plant IV and increase in office expenses due to the Group's expansion. Advertising and publicity expenses also increased as the Group's built up its XLX branding and customer awareness.

Finance costs

Finance costs increased by approximately RMB3 million or approximately 3.8% from approximately RMB79 million in the year ended 31 December 2011 to approximately RMB82 million in the year ended 31 December 2012. The increase was mainly due to more interest-bearing bank and other borrowings raised in 2012.

Profit before tax

The Group's profit before tax increased by about 65.5% from approximately RMB224.8 million in 2011 to approximately RMB372 million in 2012.

Income tax expense

Income tax expense increased by approximately RMB17 million or approximately 38.6% from approximately RMB44 million in the year ended 31 December 2011 to approximately RMB61 million in the year ended 31 December 2012 due to higher taxable profits generated by the Group.

Profit attributable to owners of the parent

The profit attributable to owners of the parent increased by approximately RMB130 million or approximately 71.8% from approximately RMB181 million in the year ended 31 December 2011 to approximately RMB311 million in the year ended 31 December 2012. This was mainly due to the increase in gross profit by approximately RMB213 million led by the decrease in urea and methanol average cost of sales and increase in urea average selling prices in 2012. The increase in profit attributable to owners of the parent in 2012 was partially offset by the increases in general and administrative expenses and income tax expense by approximately RMB66 million and RMB17 million respectively.

Total comprehensive income attributable to owners of the parent

The Group's total comprehensive income attributable to owners of the parent increased by about 72.4% from approximately RMB180.5 million in 2011 to approximately RMB311.1 million in 2012.

2011 compared to 2010

Revenue

Revenue for the year ended 31 December 2011 increased significantly by approximately RMB837 million or 29.4% from approximately RMB2,851 million in 2010 to approximately RMB3,688 million in 2011. The increase was due to the increase in urea, methanol and compound fertiliser average selling prices and increases in urea and compound fertiliser sales volume.

Revenue derived from the sales of urea increased by approximately RMB546 million or approximately 29.3% from approximately RMB1,863 million in 2010 to approximately RMB2,409 million in 2011. Such increase was mainly due to an increase in average selling price of urea. The sales quantity of urea also increased due to sales of inventory carried over from December 2010.

Revenue derived from the sales of methanol increased by approximately RMB37 million or approximately 9.6% from approximately RMB385 million in 2010 to approximately RMB422 million in 2011. Such increase was mainly due to an increase in average selling price of methanol which was partially offset by a decrease in sales quantity.

Revenue derived from the sales of compound fertiliser increased by approximately RMB255 million or approximately 42.9% from approximately RMB594 million in 2010 to approximately RMB849 million in 2011. Such increase primarily resulted from the increase in sales volume in 2011 due to a change in product mix towards a bigger share of the more profitable compound fertiliser. Average selling price for compound fertiliser also increased for the year ended 31 December 2011.

Cost of sales

The Group's cost of sales increased by about 27.9% from approximately RMB2,487.3 million in 2010 to approximately RMB3,181.9 million in 2011 primarily due to higher coal and electricity prices.

Gross profit margin

The Group's gross profit margin increased from approximately 13% for the year ended 31 December 2010 to approximately 14% for the year ended 31 December 2011, due to the increase in urea and compound fertiliser gross profit margins.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB32 million or 82.1% from approximately RMB39 million in 2010 to approximately RMB71 million in 2011. This was mainly due to an increase in compound fertiliser export related selling and distribution expenses to bring the goods to port, port handling, export tariff and freight costs. About 50,000 tons of compound fertiliser were exported in 2011 compared to none in 2010. The Group had taken into consideration such costs when agreeing the export selling price to its customers.

General and administrative expenses

General and administrative expenses increased by approximately RMB32 million or 30.8% from approximately RMB104 million in 2010 to approximately RMB136 million in 2011. This was due mainly to an increase in staff cost related to the wage increase in July 2010 and April 2011 and increase in the number of employees for Plant IV and an increase in consultation, research and developmental expenses due to the Group's expansion.

Finance costs

Finance costs increased by approximately RMB26 million or 49.1% from approximately RMB53 million in 2010 to approximately RMB79 million in 2011. The increase was due to higher interest rates and more interest-bearing bank loans and borrowings in 2011 as compared against 2010. Approximately RMB7 million in borrowing cost had been capitalised in 2011 as the amount was directly used to finance the Plant IV construction.

Profit before tax

The Group's profit before tax increased by about 27.7% from approximately RMB176 million in 2010 to approximately RMB224.8 million in 2011.

Income tax expense

Income tax expense increased by approximately RMB13 million or 41.9% from approximately RMB31 million in 2010 to approximately RMB44 million in 2011 due to higher taxable profits.

Profit attributable to owners of the parent

The net profit attributable to owners of the Group increased by approximately RMB36 million or 24.8% from approximately RMB145 million in 2010 to approximately RMB181 million in 2011. This is mainly due to the increase in gross profit by approximately RMB142 million led by the increase in urea and compound fertiliser average selling prices and sales volume in 2011. The increase in net profit attributable to owners of the Group in 2011 was partially offset by an impairment loss on an available-for- sale investment, increases in selling and distribution expenses, general and administrative expenses and finance costs by approximately RMB16 million, RMB32 million, RMB32 million and RMB25 million respectively.

Total comprehensive income attributable to owners of the parent

The Group's total comprehensive income attributable to owners of the parent increased by about 24.8% from approximately RMB144.6 million for 2010 to approximately RMB180.5 million for 2011.

Credit Management

Credit policy for the Group's customers

In general, the Group's urea and methanol sales are either made on cash terms or advance payment terms. The Group also receives cash for most of its sales of compound fertiliser although it may grant a credit period of up to 90 days for some of its more reputable customers.

When assessing the appropriate credit terms to be extended to customers, the Group takes into account the creditworthiness, payment history and reputation of such customer. The credit terms to be granted to each customer are subject to the approval of the Deputy General Manager in charge of Sales and Purchasing.

Trade receivable turnover days

The Group's trade receivable turnover days for 2010, 2011 and 2012 and the four months ended 30 April 2012 and 2013 were as follows:

	Year ended 31 December			Four months ended 30 April	
	2010	**2011**	**2012**	**2012**	**2013**
		(days)		**(days)**	
Trade receivable turnover[1]	1	2	2	2	2

Note:

(1) Calculated as the average of the beginning and ending trade receivables balances for the period, divided by the revenue for the period, multiplied by 365 days for the figures as at 31 December 2010, 2011 and 2012 (or 120 days for the figures as at 30 April 2012 and 2013).

Credit policy of the Group's suppliers

In general, the Group makes payment for supplies promptly as this enables it to make purchases on favourable terms. Credit terms from the Group's suppliers may vary depending on factors such as the Group's relationship with the supplier and the size of the Group's purchases.

Trade payable turnover days

The Group's trade payable turnover days for 2010, 2011 and 2012 and the four months ended 30 April 2012 and 2013 were as follows:

	Year ended 31 December			Four months ended 30 April	
	2010	**2011**	**2012**	**2012**	**2013**
		(days)		**(days)**	
Trade payable turnover[(1)]	6	9	13	13	11

Note:

(1) Calculated as the average of the beginning and ending trade payables balances for the period, divided by the total cost of sales for the period, multiplied by 365 days for the figures as at 31 December 2010, 2011 and 2012 (or 120 days for the figures as at 30 April 2012 and 2013).

The average trade payable turnover days increased from 6 days for the year ended 31 December 2010 to 9 days for the year ended 31 December 2011 and 13 days for the year ended 31 December 2012 as a result of the Group trying to secure raw materials, particularly phosphorus and potassium at more favourable prices.

Liquidity and Capital Resources

The Group's growth and operations have been funded through a combination of internal and external funds. Internal sources of funds are the Group's shareholders' equity and cash generated from the Group's operating activities. External sources of funds include mainly loans and bank borrowings and may in the future also include, without limitation, the issue of debt securities and convertible hybrid securities.

The Group's principal uses of cash are for working capital purposes, capital expenditures and repayment of loans and bank borrowings.

The Group had positive cash and bank balances as at 30 April 2013. The table below sets forth a summary of the Group's cash flow statements for 2010, 2011 and 2012 and the four months ended 30 April 2012 and 2013, which should be read in conjunction with the full text of this Offering Circular, including the Independent Auditors' Report and interim review report in relation to the financial statements beginning on F-1 of this Offering Circular.

	Year ended 31 December			Four months ended 30 April	
	2010	**2011**	**2012**	**2012**	**2013**
		(RMB '000)		**(RMB '000)**	
		(Audited)		**(Unaudited and unreviewed)**	**(Unaudited)**
Net cash inflow from operating activities	184,341	179,980	665,391	246,841	248,897
Net cash outflow from investing activities	(409,899)	(507,384)	(1,201,027)	(66,067)	(556,573)
Net cash inflow/(outflow) from financing activities	248,535	678,729	499,148	(261,500)	292,377
Net increase/(decrease) in cash and cash equivalents	22,977	351,325	(36,488)	(80,726)	(15,299)
Cash and cash equivalents at beginning of year/period	139,796	162,773	514,098	514,098	477,610
Cash and cash equivalents at end of year/period	162,773	514,098	477,610	433,372	462,311

Net cash inflow from operating activities

In the four months ended 30 April 2013, the Group recorded net cash flows from operating activities of approximately RMB248.9 million representing an increase of about 0.9% from approximately RMB246.8 million for the four months ended 30 April 2012.

In 2012, the Group recorded net cash flows from operating activities of approximately RMB665.4 million representing an increase of approximately 269.7% from approximately RMB180.0 million in 2011. This comprised cashflows generated from operations of approximately RMB814.7 million in 2012, compared to RMB287.6 million in 2011.

In 2011, the Group recorded net cash flows from operating activities of approximately RMB180 million representing an decrease of approximately 2.3% from approximately RMB184.3 million in 2010. This comprised cashflows generated from operations of approximately RMB287.6 million in 2011 partially offset by interest paid of approximately RMB85.8 million.

In 2010, the Group recorded net cash flows from operating activities of approximately RMB184.3 million. This comprised cashflows generated from operations of approximately RMB269.7 million in 2010 partially offset by interest paid of approximately RMB53.4 million.

Net cash outflow from investing activities

The Group's net cash outflow from investing activities for the four months ended 30 April 2013 and for the two years ended 31 December 2012 and 2011 was mainly for the purchase of property, plant and equipment. For details on the purchase of property, plant and equipment, please refer to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditure and Commitments" of this Offering Circular.

Net cash inflow from financing activities

In the four months ended 30 April 2013, the Group's net cash inflow from financing activities was approximately RMB292.4 million compared to a net cash outflow of approximately RMB261.5 million for the four months ended 30 April 2012.

In 2012, the Group's net cash inflow from financing activities was approximately RMB499.1 million. This comprised primarily of proceeds from loans and borrowings of RMB992.2 million partially offset by dividend payments on ordinary shares of approximately RMB37 million and repayments of loans and borrowings of RMB748.8 million.

In 2011, the Group's net cash from financing activities was approximately RMB678.7 million. This comprised primarily of proceeds from loans and borrowings of RMB1,040 million partially offset by dividend payments on ordinary shares of approximately RMB30.3 million and repayments of loans and borrowings of RMB655.3 million.

In 2010, the Group's net cash flows from financing activities was approximately RMB248.5 million. This comprised primarily of proceeds from loans and borrowings of RMB1,013.3 million partially offset by repayments of loans and borrowings of RMB735 million and dividends paid of RMB29.7 million.

Capital Expenditure and Commitments

Capital expenditure

The Group's capital expenditure includes additions to property, plant and equipment. The purchases or construction of such assets are financed mainly by funds generated from operations and loans. The Group's capital expenditures for the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013 are set out below:

	Year ended 31 December			Four months ended 30 April
	2010	**2011**	**2012**	**2013**
		(RMB '000)		**(RMB '000)**
Capital expenditure of the Group	288,860	263,520	757,317	510,597

The increase in capital expenditure was primarily due to the construction of the fourth production plant. The Group expects its capital expenditure will decrease in the next three years as its fourth production plant is expected to commence operations in the third quarter of 2013 and its fifth production plant is expected to commence operations in 2015.

Contingent liabilities

The Group does not have any outstanding contingent liabilities as at 30 April 2013.

Foreign exchange management

The Group's functional and reporting currency is RMB. Most of the Group's sale and purchase transactions are carried out in RMB.

Overview

The Company was incorporated in Singapore in 2006 and the principal place of business of the Group is in Henan Province in China. The Company has been listed on the SGX-ST since 20 June 2007 and on the HKSE since 8 December 2009. The Group's principal activities are manufacturing, sales and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution.

According to the CNCIC Report, the Group was the largest urea producer in Henan Province in 2012 in terms of production capacity. As of 31 December 2012, the Group's total annual production capacity of urea, compound fertiliser and methanol was approximately 1.25 million tonnes, 750,000 tonnes and 200,000 tonnes per annum, respectively. The Group's annual urea production volume constitutes about 19.5% of the total annual urea production capacity in Henan Province, which is substantially greater than the second largest urea producer in Henan. The CNCIC Report also reports that the Group is the third largest urea-based compound fertiliser producer in the PRC in terms of production capacity and the sixth largest methanol producer in terms of production volume in Henan Province.

The Group is also a highly efficient producer of urea. According to the CNCIC Report, the Group's urea production cost in 2012 was the lowest in Henan Province at RMB1,474 per tonne, which was also lower than the national average of RMB1,773 per tonne for all coal-based urea producers. The Group also benefits from a number of important cost advantages.

Firstly, the Group's headquarter and production facilities are strategically located near Zhengzhou city in Henan Province, which is one of the PRC's major transportation hubs and has one of the highest fertiliser consumption in the PRC, and is well-supported by a comprehensive network of railways and highways. The Group is able to source the coal it uses in its production processes from within Henan Province and from the neighbouring coal-rich Shanxi Province. The Group's production facilities are situated near the Yellow River, which provides plentiful water supplies for its production activities. Located in the central part of the PRC, the Group enjoys lower transportation costs and is able to cater to the needs of different customers located in different regions of the PRC, giving it a competitive edge in terms of cost and quality of service.

Secondly, coal is the largest cost component of the Group's urea production, accounting for approximately 57.1% of the Group's cost of sales for urea in 2012. Through the use of advanced production technologies and by benefiting from economies of scale, the Group is able to operate at lower cost per unit compared to its competitors. According to the CNCIC Report, the Group's coal consumption per tonne of urea production in 2012 ranked number three among major coal-based urea producers in the PRC, using on average approximately 630kg of coal to produce one tonne of urea, while the average coal consumption volume among major coal-based urea producers in the PRC was approximately 732.6kg per tonne of urea. The Group has long-term relationships with its coal suppliers which enables it to have a stable and consistent supply of high quality coal. For example, in May 2012 one of the Company's wholly-owned subsidiaries Henan XLX Fertiliser entered into a three-year sales agreement with Shanxi Asian American-Daning《山西亞美大寧能源有限公司》Energy Co., Ltd., to guarantee anthracite coal supply for its production base in Henan Province. In August 2011, Henan XLX Fertiliser entered into a five-year supply agreement with Henan Coal Chemical Industry Group Co., Ltd., the largest mining group in Henan Province.

Thirdly, electricity is also a major cost component of the Group's production activities. The Group has three in-house power generating systems which offer the Group the flexibility to either purchase electricity from the market or generate its own electricity depending on the market price and availability of power subsidies from the PRC government. The Group currently purchases the majority of its electricity needs from external sources but its own power generators have the capacity to produce about 40% of the Group's current electricity needs.

For 2010, 2011 and 2012, the Group recorded a revenue of approximately RMB2,851 million, RMB3,688 million and RMB3,946 million, respectively, representing a CAGR of approximately 11.4%. During the same period, the Group's profit after tax amounted to approximately RMB145 million, RMB181 million and RMB311 million, respectively. The Group recorded a revenue of approximately RMB1,336.5 million and profit after tax of approximately RMB156.7 million for the four months ended 30 April 2013.

Competitive Strengths

Please see "Summary — Competitive Strengths" for a description of the Group's competitive strengths.

Business Strategies

Please see "Summary — Business Strategies" for a description of the Group's business strategies.

Products

The main products which the Group produces and markets are as follows:

Urea

Urea is an organic compound with the chemical formula $CO(NH_2)_2$. Urea is also known by the recommended International Non-proprietary Name, carbamide. Urea is, in essence, a waste product of protein catabolism found in and extracted from urine. Urea is used as a nitrogen-release fertiliser and has the highest nitrogen content of all solid nitrogenous fertilisers in common use. Therefore, it has the lowest transportation costs per unit of nitrogen nutrient. Because using urea creates no soil hazards, urea is one of the most popular nitrogen nutrients for farmers.

Urea as a neutral fertiliser can be used in all kinds of soil for any crops. It can be used for base fertilisers or additional fertilisers and applied in either dry farmland or paddy fields. It can also be used 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 production is used as raw material in plastics, resin, painting and other industries. Urea can be used in all kinds of soil for any crops. After urea decomposition and absorption, no hazardous substance remains in the soil and the soil environment remains unchanged. 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 a safer option among nitrogen fertilisers.

Compound Fertiliser

Compound fertiliser has several mineral elements and nutrients that crops require. In general, the primary elements contained in compound fertiliser are nitrogen ("N"), phosphorus ("P") and potassium ("K" and, together with N and P, "NPK"), which are also called macronutrients. Compound fertiliser can be used as base fertiliser or supplemental fertiliser for many crops in the PRC such as wheat, paddy rice, sweet corn, cotton, soybean and peanut. Its high nutrient content and physical shape are important in balancing fertiliser application, improving fertiliser utilisation and promoting high and stable yield.

With high fertiliser efficiency, compound fertiliser is suitable as a base fertiliser. According to a number of tests and studies, both binary compound fertiliser and NPK compound fertiliser are suitable for basal fertiliser application. Compound fertiliser contains N, P and K nutrients, and P and K, particularly, are sensitive elements for crops and are required at an early stage. Compound fertiliser decomposes slowly. It has characteristics of high concentration and high absorption rate and is used for base fertiliser. The nutrients in compound fertiliser are 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 use in the period between the middle and later stage of planting.

Methanol

Methanol, the simplest chemical compound for alcohol, is a light, volatile, colourless, flammable and toxic liquid with a distinctive odour. It is produced naturally in the anaerobic metabolism of many varieties of bacteria and is also produced by decomposition of non-renewable petrochemicals, such as petroleum.

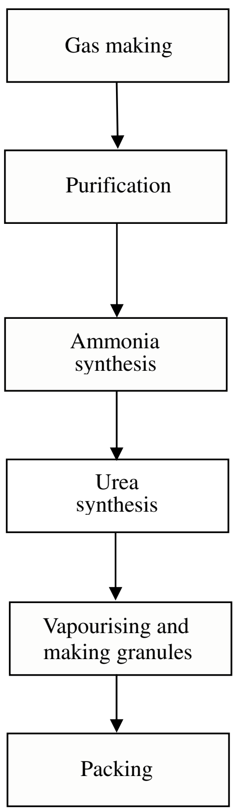
Methanol is widely used as a raw material in the chemical industry and in fuel. It has many downstream products, primarily in the fine chemical industry and plastics industry for producing formaldehyde, plastic cement, plywood, paint, acetic acid, chloromethane, methylamine, dimethyl sulphate, anti-crease textile and many other organic products. Methanol has also been used as a fuel, mainly in combination with gasoline. It is used as a detergent for pipelines and windscreens, and is also used in synthetic fibre, medicine, insecticide and dyes, and for the 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 produced synthetically by a multi-step process from natural gas or coal gas and petroleum. Currently, in the U.S. and Western Europe, synthesis gas is most commonly produced from the methane component in natural gas rather than from coal. However, in the PRC, due to the deficiency of natural gas resources, methanol is mainly produced from coal.

Production Processes

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

Urea



Step 1: Gas making: 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: The semi-liquid coal gas is purified, and impurities and harmful gases are removed to extract hydrogen and nitrogen by washing, transforming, absorbing and separation processes, which comply with the industrial standards required for ammonia synthesis.

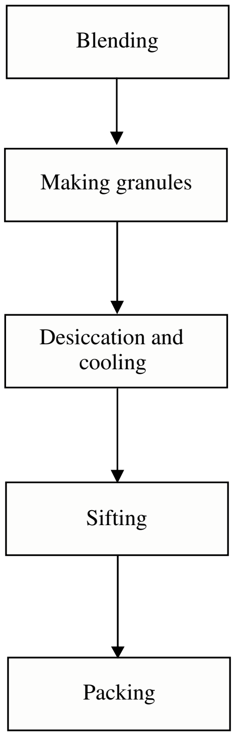
Step 3: Ammonia synthesis: Hydrogen and nitrogen are synthesised into pure synthetic ammonia under high temperature and pressure with a catalyst and then sent to the ammonia storage tank for storage.

Step 4: Urea synthesis: Synthetic ammonia from the ammonia storage tank reacts with the carbon dioxide produced during the purification of the ammonia to produce urea solution.

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

Step 6: Packing: The qualified urea products are packed and weighed before being sent to the finished products warehouse.

__Compound Fertiliser__



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

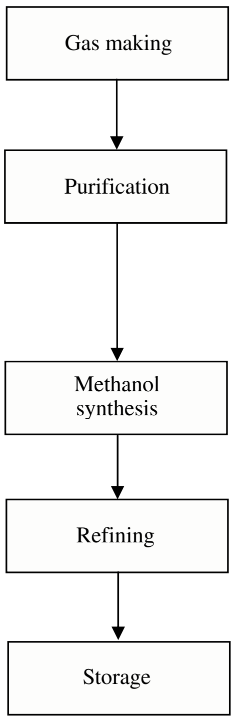
Step 2: Making granules: The raw materials are crushed, mixed and granulated within a fluid mixture formed by carbamide, steam and water. The granules are then sent to the dryer by conveyor belt.

Step 3: Desiccation and cooling: The granules are tossed in 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: 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: The finished products are packed and sent for electronic weighing before being stored in the finished products warehouse.

__Methanol__



Step 1: Gas making: 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: The semi-liquid coal gas is purified, and impurities and harmful gases are removed by washing, transforming, absorbing and separation processes, all of which comply with the industrial standards required for methanol synthesis to obtain carbon monoxide, carbon dioxide and hydrogen.

Step 3: Methanol synthesis: The carbon monoxide and carbon dioxide in the compound ammonia react with hydrogen in the synthesis tower to produce crude methanol.

Step 4: Refining: The crude methanol is extracted and refined to remove impurities and to derive refined methanol.

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

Production Facilities and Capacity

As of 30 April 2013, the Group has three production plants, all located in Henan Province. The Group has three production lines for urea, two production lines for compound fertiliser and three production lines for methanol. The Group's annual production capacity for each of urea, compound fertiliser and methanol is measured by multiplying the daily production capacity by 340 days. The Group expects that its fourth production plant, Plant IV, will commence operations in the third quarter of 2013.

In May 2012, the Company announced plans to construct a fifth production plant in Manas County, Xinjiang. Upon commencing operations in 2015, Plant V will increase the Group's annual urea production capacity from approximately 2.1 million tonnes (including the Plant IV's annual urea production capacity) at present to approximately 2.58 million tonnes. Plant V will also increase the Group's annual production capacity for compound fertiliser will increase from approximately 750,000 tons at present to 900,000 tons.

In order to maintain the Group's production facilities at full capacity and in proper order, the Group regularly inspects and maintains its production equipment and facilities. The Group has not experienced any material or prolonged suspension of production due to any equipment or facilities failure in the last three years. The Group's production facilities are subject to scheduled inspections and maintenance approximately every 12 months and are shut down for approximately 10 days during the scheduled maintenance period.

The table below sets forth information on the actual production volume, annual production capacity and utilisation rates of urea for the Group's Plant I, Plant II and Plant III during the three years ended 31 December 2010, 2011 and 2012:

	Year ended 31 December	
	2012	
	Annual production capacity	**Utilisation rate[(1)]**
	(tonnes)	**(%)**
Plant I	323,000	111
Plant II	408,000	101
Plant III	527,000	105

Note:

(1) Utilisation rate refers to the percentage of actual production volume divided by annual production capacity.

Urea is a primary fertiliser used by the agricultural industry throughout the year. The Group's utilisation rate for urea production in the Group's three plants was on average approximately 105% in 2012 compared to approximately 104% in 2011.

Compound fertilisers are used to provide nutrients for crops frequently in the months of August to October. Due to seasonality, utilisation rates for the production of compound fertilisers fluctuate and can fall below 100% as the Group adjusts its production according to market demand. The utilisation rates for methanol production also fluctuate and can fall below 100% as the Group may adjust its production according to market demand.

The production volume in the fiscal year ended 31 December 2012 for urea, compound fertiliser and methanol production was 1,316,000 tonnes, 398,000 tonnes and 223,000 tonnes, respectively. The production volume for the four months ended 30 April 2013 for urea, compound fertiliser and methanol production was 429,412 tonnes, 145,446 tonnes and 77,742 tonnes, respectively.

Competition

The Group faces intense competition in the chemical fertiliser industry in the PRC. Pursuant to the CNCIC Report, there were approximately 172 urea producers, 271 methanol producers and 4,933 compound fertiliser producers in the PRC as of 31 December 2012, which included state-owned enterprises, private-owned enterprises and foreign-invested enterprises.

The Company believes the major factor defining the competition landscape in respect of urea producers is production cost, and therefore the Company invests a substantial amount of time and effort to improve the Group's production efficiency and to achieve lower production cost in order to increase the Group's competitiveness. In terms of cost-competitiveness, the Group's urea production cost per tonne was the lowest in Henan Province and the fourth lowest among all coal-based urea producers in the PRC according to the CNCIC Report for 2012. Furthermore, the Company believes that there are significant entry barriers for urea producers as a significant upfront capital investment and fixed costs are required for establishing and maintaining urea production facilities in the PRC. Thus, new competitors are not considered a significant threat.

The Group's compound fertiliser products compete on the basis of product quality, price, product development, customer service and distribution capability. The Group has established the largest agrochemical service centre in Henan to collect soil samples from farmlands in order to develop tailor-made compound fertilisers with different formula and mineral compositions for improving quality and cost-efficiency. As compound fertiliser is less price sensitive than urea, the sales and marketing capability and service quality of the agrochemical service team are the key to success in the compound fertiliser market.

Methanol producers experience intense market competition and the rapid development of the methanol market has been driven by demand. The Company expects that due to excess supply of methanol in the PRC in part due to low-cost imports from the Middle East, the PRC government will limit approvals for new methanol projects, which may restrict new competitors from entering the market.

Raw Materials

The primary raw material used in the production of urea is coal. In 2012, the cost of coal used in the Group's production amounted to approximately 49.4% of the Group's cost of sales. Historically, the majority of coal used in the Group's urea production was sourced in Shanxi Province, which has abundant coal resources. However, in August 2011, the Company entered into a five-year strategic cooperation agreement with Henan Chemical, the largest coal producer in Henan Province, pursuant to which Henan Chemical agreed to supply the Group with 600,000 tonnes of anthracite coal and 100,000 tonnes of steam coal each year for the next five years, which represents approximately 50% and 25% of the Group's current anthracite coal and steam coal requirements, at a price based on the then prevailing market rates. Sourcing coal within Henan Province will enable the Group to further reduce transportation costs as the Henan Chemical coal mines are only approximately 25 kilometres away from the Group's production plants while the Shanxi Province coal mines are approximately 150 kilometres away from the Group's production plants.

The major raw materials used in the production of the Group's compound fertilisers are urea, potassium and phosphorus.

The Group has adopted stringent policies on the selection of its raw materials suppliers. The basic criteria of selection of its raw materials suppliers are: (i) reputation; (ii) ability to supply quality raw materials that meet the Group's standards; and (iii) the ability to meet the Group's raw materials volume requirements.

Energy

Electricity is the primary source of energy in the Group's production as its production plants require a significant amount of electricity for their daily operation and production. The Group has in-house power generator systems at each of its production plants, enabling it to have stable and cost effective electricity supply for its production if electricity supply from the national grid becomes inadequate. Generally, the cost of electricity represents less than 20% of the Group's cost of sales in a year. As of the date of this Offering Circular, the Group had not experienced any material shortages of electricity which materially impacted the Group's production.

See "Risk Factors — The Group's production and distribution may be affected by various factors, including interruptions in electricity supply and rail transport and a breakdown of production facilities" in this Offering Circular for further details.

Quality Control

The Group strongly believes that strict quality control and the provision of consistent, quality products are essential for it to maintain sustainable growth in the chemical fertiliser industry. Accordingly, the Group has adopted the following quality management and control systems:

- **Raw materials**: the Group performs quality control inspections of the raw materials and purchases from pre-selected suppliers who are able to provide the Group with high quality coal for optimal extraction of coal gas.

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

- **Testing and inspection**: the Group performs testing procedures at every stage of its production process. The Group's quality inspection team performs random tests on both semi-finished and finished products to ensure that its products comply with the required standards. Testing processes include, among other things, checking the physical appearance and composition of nutrients.

- **Packaging and storage**: the Group adopts systematic packaging and storage procedures to ensure proper packaging and avoid any damages to its fertiliser products during their storage.

As of the date of this Offering Circular, the Group has not experienced any material sales returns by customers nor any product liability or other legal claims arising from allegations relating to the quality of its products.

Sales and Marketing

During the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013, the Group's revenue was derived principally from the sales of urea, compound fertiliser and methanol. The table set forth below is a breakdown of the Group's revenue by product during such period:

	For the year ended 31 December						Four months ended 30 April	
	2010		2011		2012		2013	
	(audited)		(audited)		(audited)		(unaudited)	
	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue	Revenue	% of total revenue
	(RMB '000)	(%)	(RMB '000)	(%)	(RMB '000)	(%)	(RMB '000)	(%)
Urea	1,863,208	65.4	2,409,012	65.3	2,498,534	63.3	861,256	64.4
Compound fertiliser	594,214	20.8	849,236	23.0	937,973	23.8	310,261	23.2
Methanol	385,298	13.5	422,480	11.5	495,163	12.5	162,399	12.2
Others	8,683	0.3	7,505	0.2	13,914	0.4	2,598	0.2
Total	2,851,403	100.0	3,688,233	100.0	3,945,584	100.0	1,336,514	100

A large proportion of the Group's revenue is derived from sales of its urea, which the Group sells mainly in Henan with the remainder sold in Anhui, Jiangsu, Jilin, Hubei, Guangdong and other provinces. The Group mainly sells its compound fertiliser in Henan, Hubei, Shandong, Heilongjiang, Anhui and other provinces. The Group sells the majority of its methanol in Shandong and the remainder in Henan, Hubei, Jiangsu and other provinces.

Apart from urea, compound fertiliser and methanol, the Group also sells other by-products, such as ammonia solution and liquid ammonia, which contributed to less than 0.4% of the Group's total consolidated revenue during the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013.

The Group's sales and marketing team is responsible for procuring sales orders, maintaining customer relationships, conducting market research, organising marketing events and formulating sales and marketing strategies. In order to procure sales orders and maintain customer relationships, the Group's sales and marketing staff regularly visit customers to obtain information on the quality and delivery of its products and on how to improve its services and invite customers to visit the production facilities to enable them to better understand the Group's operations and products. The Group also regularly participates in and organises trade affairs and exhibitions, such as the Central Plains Area Xinlianxin Fertiliser Meeting, to promote its products and to conduct market research. The Group uses media to promote its products and strengthen its corporate image through television communications and publications of the Group's senior management interviews in newspapers and magazines.

Furthermore, the Group offers soil testing services for its compound fertiliser customers, which allows them to better understand the nature and characteristics of the soil of their farms. Such service is normally provided to the Group's customers before their purchase and is free of charge. Upon receipt of a customer order, the Group will adjust the mineral composition within the compound fertiliser based on the respective soil test result to produce tailor-made compound fertilisers which will help enhance the effectiveness of fertiliser application.

The Group's sales and marketing team has conducted extensive market studies to understand industry trends and market needs and established the following key sales and marketing strategies based on its understanding of the industry.

Urea

Henan will continue to be the Group's core market for urea in the future. The Group will expand its sales to districts and counties in Henan where it does not currently have a market presence and will engage more distributors to market its products. The Group plans to make use of this existing sales and marketing network to increase its sales of urea in the north-eastern provinces, including Heilongjiang, Jilin and Liaoning (the "Northeast Provinces") and Inner Mongolia.

Compound Fertiliser

Henan and the Northeast Provinces will continue to be the Group's key markets for compound fertiliser products. In addition, the Group also intends to cultivate its network in neighbouring provinces such as Shandong and Hebei provinces, which are major agricultural provinces, to develop them into key markets for compound fertiliser products. The Group also intends to develop new markets such as Anhui, Guangdong, Guangxi, Hubei, Hunan, Inner Mongolia and Shanxi provinces, which are also agricultural provinces with demand for compound fertilisers. The Group has established a sales and marketing network in the Northeast Provinces for compound fertiliser products. The Group will also increase promotional efforts and advertisements for compound fertiliser to increase awareness and acceptance of the benefits of compound fertiliser as a nutrient for increasing crop yields.

Methanol

In the near to medium future, the Group intends to actively market to product manufacturers that produce downstream chemical products from methanol, including, but not limited to, pharmaceutical products, pesticides, dyestuffs, plastics, synthetic fibre and rubber, solvents and fuel, etc.

Major Customers

The Group sells its urea and compound fertiliser products to distributors of fertilisers to farmers. During the course of a given year, the Group enters into sales agreements with its major customers who are distributors, which set the total quantity and the terms of payment of the Group's products. The customers are generally required to settle the full payment before the delivery of the Group's products. In general, the Group arranges delivery with transportation costs factored into the amount the Group charges its customers. In addition, the Group may receive estimates from some of its major customers by which the annual target quantities and the selling prices of the Group's products are determined with reference to the prevailing market prices from time to time. The distributors are independent third-party distributors that also sell fertiliser products produced by other manufacturers, as well as other agricultural products.

The Group sells methanol to customers who are generally manufacturers of downstream chemical products, primarily in Henan, Jiangsu and Shandong Provinces. There are also initiatives by the PRC government to use methanol as a fuel substitute for oil, and customers for methanol as a fuel substitute will be one of the Group's new target markets.

The Group has not adopted a typical distributorship sales model and does not own or operate its own distribution network or retail outlets. Accordingly, the Group does not enter into any distribution agreement with end market users. However, the Group usually requires its major customers to submit their annual sales plans at the beginning of each year, and the Group's sales and marketing staff monitors the execution of such sales plans through regular visits to those distributors to obtain information on the frequency and the sales volume of its customers. Based on the historical transaction pattern, the Group makes reasonable enquiries if it becomes aware of any abnormal ordering pattern. Furthermore, as the Group requires its customers to make payment in advance before delivery of its products and the Group does not have a refund or exchange policy except for defective or damaged products, the Company believes that such policy will discourage the Group's customers from accumulating inventory, as they may incur losses if the market prices of the fertiliser products drop. During the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013, the Group had not experienced any material sales returns by its customers, except for a minimal number of returns of defective or damaged products, which had no material adverse impact on its business operation.

During the three years ended 31 December 2010, 2011 and 2012, sales to the Group's five largest customers accounted for less than 30% of the Group's total sales in 2010, 2011 and 2012. Sinofert Holdings Limited, the largest fertiliser distributor in the PRC as well as the Group's largest customer, held approximately 4.99% of the total issued Shares of the Company as at 31 March 2013.

Major Suppliers

The Group purchases from its key suppliers anthracite coal, coal powder, potassium and phosphorous. Generally, the Group enters into non-legally binding memorandums of understanding with most of the suppliers, by which a certain quantity of raw materials is agreed upon and prices are based on the prevailing market prices at the time of agreement. See also "Raw Materials".

The Group settles its raw materials purchases through advanced cash payments and bears its own transportation costs. The Group's coal suppliers, primarily mining companies are mainly located in Henan and Shanxi; its suppliers of potassium are mainly located in Shaanxi and Qinghai; and its suppliers of phosphorus are mainly located in Henan, Hubei and Yunnan. The Company believes that the Group has established a close relationship with its suppliers, which enables it to obtain a stable and reliable supply of raw materials.

Purchases from the Group's five largest suppliers accounted for approximately 33%, 43% and 43% of the total purchases in 2010, 2011 and 2012 respectively.

Permits, Approvals, Certifications and Government Regulations

Licences, permits and approvals

Save as disclosed in this Offering Circular, the Group has obtained all material licences, permits and approvals required for conducting the Group's business and have complied with the relevant PRC laws and regulations in respect of such material licences, permits and approvals.

Occupational Health and Safety

The Company considers occupational health and safety one of the Group's important social responsibilities. The Group has adopted a comprehensive and effective safety management system in its production process to ensure employee safety. The Group's safety management system includes its internal safety regulations as well as the relevant government regulations in respect of occupational safety. The main safety processes which the Group has adopted include: (i) employee compliance with a safety handbook distributed to all employees and training programs held for employees covering details of relevant safety rules, regulations and procedures in respect of each of the Group's production processes; (ii) a safety committee to supervise and monitor compliance of relevant occupational safety rules, regulations and procedures, as well as quarterly safety inspection checks; (iii) accident prevention and management regulations; and (iv) quality certifications issued by manufacturers for all machinery and equipment purchased.

Environmental Protection Methods

In recent years, the Group has placed emphasis on environmental protection as a result of increasing environmental awareness and to comply with increasingly stringent PRC environmental requirements. The Group has implemented technical measures to treat wastewater, waste gas and dregs to ensure that its production operations comply with environmental requirements.

In June 2012, the Group was rated as China's *Most Energy Efficient Coal-based Synthetic Ammonia Producer* jointly by the Ministry of Industry and Information Technology and the China Petroleum and Chemical Industry Federation.

See "Risk Factors — The Group's business is subject to costs associated with environmental protection laws and regulations and this may impact its production costs " in this Offering Circular for further details.

Insurance

As at the date of this Offering Circular, the Group maintains insurance policies including:

(a) a comprehensive insurance policy with coverage of up to RMB1,577 million for its property, plant and equipment, which covers the Group for losses arising from events such as fire, explosion, typhoon and flood; and

(b) machines and equipment insurance with coverage of up to RMB1,001 million, which covers the Group for events such as damages caused by design or manufacture problems.

The Group also provides social welfare insurance and occupational accident damages insurance for its full-time employees in accordance with the relevant PRC laws and regulations.

In 2012, the total insurance expense incurred was approximately RMB3 million. These insurance policies are reviewed annually to ensure that the coverage is adequate. The Company believes that the coverage from these insurance policies is adequate for its present operations.

The Group has not maintained any product liability insurance for its products, as it is not legally required to have such insurance under the PRC laws at present and the Company believes that it is not a market practice to purchase product liability insurance in the chemical fertiliser industry in the PRC. During the three years ended 31 December 2010, 2011 and 2012 and the four months ended 30 April 2013, the Group did not experience any material product liability claims .

See “Risk Factors — The Group may have insufficient insurance coverage in certain situations” in this Offering Circular for further details.

Properties

As at the date of this Offering Circular, Henan XLX Fertiliser, the Company’s subsidiary, has obtained the land use rights and building ownership rights in respect of the properties that are currently used by the Group, and such land has been zoned for industrial use, which includes the production of fertilisers.

Legal Compliance and Proceedings

As at the date of this Offering Circular, none of the members of the Group nor the directors was a party to any legal, arbitration or administrative proceedings, and no proceedings are known by any member of the Group or the directors to be contemplated by government authorities or third parties, which, if adversely determined, would materially and adversely affect the Group.

The Company’s PRC legal advisers, Jingtian & Gongcheng, confirmed that save as disclosed in this Offering Circular, the Group has obtained all material approvals, permits, licences and certificates necessary for its operations and business in all material respects.

DIRECTORS

The Company's board of directors is responsible and has general powers for the management and conduct of the business of the Company. The table below shows certain information in respect of members of the board of directors of the Company:

Name	Position
Liu Xingxu	Chairman and Chief Executive Officer
Yan Yunhua	Executive Director and Chief Financial Officer
Li Buwen	Executive Director
Lian Jie	Non-executive Director
Ong Kian Guan	Independent Non-executive Director
Li Shengxiao	Independent Non-executive Director
Ong Wei Jin	Independent Non-executive Director

Executive Directors

Mr. Liu Xingxu is the chairman of the Board and chief executive officer of the Company, and is principally in charge of the Group's overall strategic direction as well as the management of the day-to-day business operations of the Company. Mr. Liu was appointed as the executive director of the Company on 26 July 2006. He is also a member of the NC. Mr. Liu has nearly 20 years of experience in the chemical fertiliser industry. He is currently the vice chairman of China Nitrogen Fertiliser Industry Association. Mr. Liu was appointed the factory head of Xinxiang Fertiliser Factory, a state-owned enterprise, in charge of factory operations in 1994 and then became the general manager of Henan Xinlianxin Chemicals Group Co., Ltd. ("XLX Chem") from July 2003 to July 2006. He has been the general manager of Henan XLX Fertiliser since July 2006. In February 2003, Mr. Liu was awarded the "Provincial Safe Production Advanced Worker'' by Safe Production Committee of Henan Province and Personnel Bureau of Henan Province for his outstanding performance in safety work. In April 2004, he was awarded the "Henan Province Labour Model (Advanced Worker)'' and, in 2005, he was awarded the "Henan Province Outstanding Private Enterprise Entrepreneur'' by the People's Government of Henan Province, and he was the winner of "National Labor Day Medal" in 2009 issued by All China Federation of Trade Unions. Mr. Liu graduated from Xinxiang Broadcasting and Television University in July 1986 with a Diploma in Arts. In 2006, he completed EDP (Executive Development Programs) courses from Guanghua School of Management, Peking University. In 2010, Mr. Liu was awarded the qualification of Senior Economist by the People's Government of Henan Province and the EMBA degree from Tsinghua University. Mr. Liu is the controlling shareholder and a director of Pioneer Top Holdings Limited, a substantial Shareholder.

Ms. Yan Yunhua is the executive director and chief financial officer of the Company, and is principally in charge of all financial matters within the Group. Ms. Yan was appointed as the Company's executive Director on 10 November 2006. Ms. Yan obtained the accountant certification from the Ministry of Finance of the PRC in May 1997. She graduated from Xi'an Jiaotong University in July 2003 with a degree in accountancy and obtained the senior accountant certification from Henan Province Accountant Series Senior Assessment Committee in December 2005. Ms. Yan obtained the EMBA (Executive Master of Business Administration) degree from Guanghua School of Management, Peking University in July 2009. Ms. Yan has nearly 20 years of accounting and finance experience. Ms. Yan is currently the executive chairman of the Finance Research Committee of China Nitrogen Fertiliser Industry Association and the vice chairman of Henan Accountants Association. She joined Xinxiang Fertiliser Factory in December 1997 and held various positions in Xinxiang Fertiliser 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 awarded the Accountants Contribution Award in the PRC in 2008, and Advanced Worker in Accounting of Henan Province in 2009. Ms. Yan is the controlling shareholder and a director of Go Power Investments Limited, a substantial Shareholder.

Mr. Li Buwen is the executive director of the Company, and is principally in charge of the overall administrative functions of the Group. Mr. Li was appointed as the executive director of the Company on 10 November 2006. Mr. Li has more than 30 years of experience in chemical fertiliser industry. Mr. Li held various positions in Xinxiang Fertiliser Factory, including the deputy head of Xinxiang Fertiliser 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 from July 2006 to June 2012. Mr. Li obtained certification of National Enterprises Human Resource Management and Development from the State Economic and Trade Commission Economic Cadre Training Centre and certification of Internal Quality System Inspector from the Beijing Quality Association Quality Management Technical Services Centre 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 in February 1998.

Non-Executive Directors

Mr. Lian Jie has been the Company's non-executive Director since 21 December 2011. Now he is a partner of Primavera Capital Group, a private equity fund which focuses on the PRC. Mr. Lian currently is an independent non-executive director of Bona Film Group Limited (a company listed on NASDAQ Stock Market). From 2009 to 2010, Mr. Lian served as a Managing Director of Hong Kong Investment Banking, China International Capital Corporation Limited, before which Mr. Lian held various positions in The Goldman Sachs Group, Inc., including as a Managing Director of Hong Kong Investment Banking Division during 2001 to 2009. Mr. Lian owns a Master of Business Administration degree of Tuck School of Business at Dartmouth College. Nitro Capital Limited (a substantial Shareholder) is wholly owned by Primavera Capital (Cayman) Fund I L.P., which in turn is within Primavera Capital Group.

Independent Non-Executive Directors

Mr. Ong Kian Guan has been an independent non-executive director of the Company since 11 May 2007. He is also the chairman of the AC and a member of both the RC and the NC. He is a practising member and a fellow of the Institute of Certified Public Accountants of Singapore (the "ICPAS"), and also a partner with Baker Tilly TFW LLP. He has more than 19 years of professional experience in financial audits of multinational corporations and public listed companies from diverse industries. He is also an independent director of China Haida Ltd. (a company listed on the SGX-ST), Weiye Holdings Limited (a company listed on the SGX-ST) and China Animal Healthcare Ltd. (a company listed on the Hong Kong Stock Exchange and the SGX-ST). He has resigned as an independent director of JES International Holdings Limited (a company listed on the SGX-ST) with effect from 30 April 2012. Mr. Ong is also a serving member of the auditing and assurance standards committee of the ICPAS. Mr. Ong graduated from the Nanyang Technology University in Singapore with a bachelor of accountancy degree 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") provides that companies incorporated in Singapore should appoint an independent nonexecutive director to be the lead independent director where the chairman and 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 lead independent non-executive director should be available to shareholders where they have concerns and for which contact through the normal channels of the chairman, the chief executive officer or the chief financial officer has failed to resolve or is inappropriate.

Mr. Li Shengxiao has been an independent non-executive director of the Company since 11 May 2007. He is also the chairman of the NC and a member of both the AC and the RC. He has been a professor in Shaoxing University since November 2004 and is currently the Dean of School of Economics and Management in Shaoxing University. Mr. Li has been the instructor of establishment of small and medium enterprises in Zhejiang Province, Small and Medium Enterprises Bureau in Zhejiang Province since 2006. Mr. Li is also an independent director of Anhui Jiangnan Chemical Industry Co., Ltd., a company listed on the Shenzhen Stock Exchange. With effect from 29 August 2012, Mr. Li has resigned as an independent director of Zhejiang Jinggong Science & Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange. Mr. Li graduated from Hangzhou University (which is currently known as "Zhejiang University") 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 the "high school outstanding youth teacher of Zhejiang Province" in September 1991.

Mr. Ong Wei Jin has been an independent non-executive director since 11 May 2007. He is also the chairman of the RC and a member of both the AC and the NC. He is a partner in Harry Elias Partnership LLP (a Singapore law firm). He is an independent director of Luzhou Bio-chem Technology Limited and Consciencefood Holding Limited (companies listed on the SGX-ST). Mr. Ong obtained a Bachelor of Laws degree from the National University of Singapore in 1990, a Master of Business Administration degree from University of Hull in 1993, and a Master of Laws degree from the NationalUniversity of Singapore in 1995.

SENIOR MANAGEMENT

Mr. Zhang Qingjin has been the executive deputy general manager of Henan XLX Fertiliser since July 2011, and was the deputy general manager in charge of human resources department of Henan XLX Fertiliser since November 2006. He has over 20 years of experience in the chemical fertiliser industry. Mr. Zhang joined Xinxiang Fertiliser 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 Fertiliser 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 equipment and obtained the EMBA degree from Tsinghua University in 2009.

Mr. Ru Zhengtao has been the deputy general manager in charge of the production department at Henan XLX since 31 July 2006. Mr. Ru has more than 30 years' experience in the chemical fertiliser industry. He started his career with Xinxiang Fertiliser Factory in 1974 and held various positions including assistant to head of Xinxiang Fertiliser Factory, deputy head of Xinxiang Fertiliser Factory and head of nitrogen fertiliser plant of Xinxiang Fertiliser Factory. He was the deputy general manager of XLX Chem from July 2003 to July 2006. Mr. Ru graduated from Zhengzhou Engineering College 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" by Xinxiang Trade Union, Xinxiang Science and Technology Committee, Xinxiang Economic Committee and Xinxiang Finance Bureau in February 1999.

Mr. Li Yushun has been the deputy general manager in charge of the research and development department at Henan XLX since 31 July 2006. Mr. Li has more than 20 years of experience in the chemical fertiliser industry. He joined Xinxiang Fertiliser Factory in August 1982 and was appointed as the deputy factory head of Xinxiang Fertiliser 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. Mr. Li graduated from Zhengzhou Engineering College in July 1982 with a major in chemical technology. In 2004, he was awarded First in Third Prize for Adopting the Improved Water Solution Full Circulation Method Urea Technology to Expand Production and Reduce Wastage by the People's Government of Xinxiang. 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 by China Nitrogen Fertiliser Industry Association.

Mr. Wang Nairen has been the deputy general manager in charge of the sales and purchasing department at Henan XLX since 31 July 2006. He has more than 20 years of experience in the chemical fertiliser industry. He held various positions in Xinxiang Fertiliser Factory, including the office head of nitrogen fertiliser plant of Xinxiang Fertiliser Factory from March 1993 and the deputy head and assistant to head of Xinxiang Fertiliser Factory. Mr. Wang was the deputy general manager of sales and marketing department of XLX Chem from August 2003 to July 2006. Mr. Wang obtained a certificate of completion in master's course of business administration from Tianjin University of Finance and Economics in June 2002.

Mr. Zhao Lianzi has been the deputy general manager of marketing and strategy department of Henan XLX Fertiliser since February 2012. He has more than 15 years of experience in the chemical fertiliser industry. He held various positions in the Company, including the deputy head of Xinxiang Fertiliser Factory from February 1999 to August 2000. He was the general manager of 河南新新化肥股份有限公司 from August 2000 to December 2003; the general manager of 河南心連心化肥有限公司複合肥分公司 from December 2003 to July 2010; the assistant to general manager of Henan XLX Fertiliser from July 2010 to February 2012. Mr. Zhao obtained a certificate of completion in master's course of business administration from Tianjin University of Finance and Economics in June 2002. In 2007, he completed EDP (Executive Development Programs) courses from Guanghua School of Management, Peking University.

The information and data set out in this section is for information purposes only and is based on or derived or extracted from third-party sources. The Company has taken reasonable care in the compilation and reproduction of the information in this section. However, none of the Company, the Group, the Managers and any of their respective affiliates or advisers or any other party involved in the Offering has independently verified such information. Accordingly, such information should not be unduly relied upon.

THE PRC

The People's Bank of China ("PBOC"), the central bank of the PRC, sets and publishes daily a central parity exchange rate with reference primarily to the supply and demand of the Renminbi against a basket of currencies in the market during the previous day. The PBOC also takes into account other factors, such as the general conditions existing in the international foreign exchange markets. Since 1994, the conversion of the Renminbi into foreign currencies, including Hong Kong dollars and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous day's inter-bank foreign exchange market rates and current exchange rates in the world financial markets. From mid-1990 to 20 July 2005, the official exchange rate for the conversion of the Renminbi to U.S. dollars was generally stable. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of the Renminbi into foreign currency for current account items, conversion of the Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. On 21 July 2005, the PRC government introduced a managed floating exchange rate system to allow the value of the Renminbi to fluctuate within a regulated band based on market supply and demand and by reference to a basket of currencies. On the same day, the value of the Renminbi appreciated by 2% against the U.S. dollar. The PRC government has since made and in the future may make further adjustments to the exchange rate system. The PBOC announces the closing price of a foreign currency traded against the Renminbi in the inter-bank foreign exchange market after the closing of the market on each working day and makes it the central parity for the trading against the Renminbi on the following working day. In May 2007, the PBOC increased the floating band for the trading prices in the inter-bank foreign exchange market of the Renminbi against the U.S. dollar from 0.3% to 0.5% around the central parity rate. This allows the Renminbi to fluctuate against the U.S. dollar by up to 0.5% above or below the central parity rate published by the PBOC.

The following table sets forth the exchange rate as set forth in the H.10 statistical release of the U.S. Federal Reserve Board for the periods and as at the dates indicated:

	Noon Buying Rate			
	Low	**Average(1)**	**High**	**Period end**
	(RMB per U.S.$1.00)			
Period				
2008	6.7800	6.9193	7.2946	6.8225
2009	6.8176	6.8295	6.8470	6.8259
2010	6.6000	6.7603	6.8330	6.6000
2011	6.2939	6.4475	6.6364	6.2939
2012	6.2221	6.3093	6.3879	6.2301
2013				
January	6.2134	6.2215	6.2303	6.2186
February	6.2213	6.2323	6.2438	6.2213
March	6.2105	6.2154	6.2246	6.2108
April	6.1647	6.1681	6.2078	6.1647
May	6.1213	6.1416	6.1665	6.1340
June	6.1248	6.1342	6.1488	6.1374
July (through July 26, 2013)	6.1293	6.1348	6.1408	6.1316

Note:

(1) Determined by averaging the rates on the last business day of each month during the relevant period, except for the average rate of the relevant periods in 2013, which is determined by averaging the daily rates during that period.

REMITTANCE OF CNY INTO AND OUTSIDE THE PRC

Renminbi is not a freely convertible currency. The remittance of Renminbi into and outside the PRC is subject to controls imposed under PRC law.

Current Account Items

Under the PRC foreign exchange control regulations, current account item payments include payments for imports and exports of goods and services, payments of income and current transfers into and outside the PRC.

Prior to July 2009, all current account items were required to be settled in foreign currencies. Since July 2009, the PRC has commenced a pilot scheme pursuant to which Renminbi may be used for settlement of imports and exports of goods between approved pilot enterprises in five designated cities in the PRC, including Shanghai, Guangzhou, Dongguan, Shenzhen and Zhuhai and enterprises in designated offshore jurisdictions, including Hong Kong and Macao. On 17 June 2010, the PRC government promulgated the Circular on Issues concerning the Expansion of the Scope of the Pilot Programme of Renminbi Settlement of Cross-Border Trades (Yin Fa (2010) No. 186) pursuant to which (i) Renminbi settlement of imports and exports of goods and of services and other current account items became permissible, (ii) the list of designated pilot districts was expanded to cover 20 provinces, and (iii) the restriction on designated offshore districts was lifted. On 24 August 2011, the PRC Government promulgated the Circular on Expansion of the Districts of Renminbi Settlement of Cross-Border Trades, pursuant to which the permitted districts of Renminbi settlement of cross-border trades were expanded to cover all provinces and cities in China. Accordingly, any onshore or offshore enterprises are entitled to use Renminbi to settle imports and exports of goods and services and other current account items between them. Renminbi remittance for exports of goods from the PRC may only be effected by approved pilot enterprises in the PRC.

As a new regulation, the circulars mentioned above will be subject to interpretation and application by the relevant PRC authorities. Local authorities may adopt different practices in applying the Renminbi Settlement Circular and impose conditions for settlement of current account items.

Capital Account Items

Under the PRC foreign exchange control regulations, capital account items include cross-border transfers of capital, direct investments, securities investments, derivative products and loans. Capital account payments are generally subject to approval of the relevant PRC authorities.

Settlement for capital account items are generally required to be made in foreign currencies. For instance, foreign investors (including any Hong Kong investors) are generally required to make any capital contribution to foreign invested enterprises in a foreign currency in accordance with the terms set out in the relevant joint venture contracts and/or articles of association as approved by the relevant authorities. Foreign invested enterprises or any other relevant PRC parties are also generally required to make capital item payments, including proceeds from liquidation, transfer of shares, reduction of capital, interest and principal repayment to foreign investors in a foreign currency. That said, the relevant PRC authorities may approve a foreign entity to make a capital contribution or a shareholder's loan to a foreign-invested enterprise with Renminbi lawfully obtained by it outside the PRC and for the foreign invested enterprise to service interest and principal repayment to its foreign investor outside the PRC in Renminbi on a trial basis. The foreign-invested enterprise may also be required to complete a registration and verification process with the relevant PRC authorities before such Renminbi remittances.

On 25 February 2011, MOFCOM promulgated the Circular on Issues concerning Foreign Investment Management (the "MOFCOM Circular"). The MOFCOM Circular states that, if a foreign investor intends to make investments in the PRC, whether by way of establishing a new enterprise, increasing the registered capital of an existing enterprise, acquiring an onshore enterprise or providing loan facilities, with Renminbi that it has generated from cross-border trade settlement or that is lawfully obtained by it outside the PRC, MOFCOM's prior written consent is required. While the MOFCOM Circular expressly sets out the requirement of obtaining MOFCOM's written prior consent for remittance of Renminbi back to the PRC by a foreign investor, the foreign investor may also be required to obtain approvals from other PRC regulatory authorities, such as the PBOC and SAFE, for transactions under capital account items. On 3 June 2011, PBOC promulgated the Circular on Issues concerning Cross-border Renminbi Business (中國人民銀行關於明確跨境人民幣業務相關問題的通知) (the "PBOC Circular"). According to the PBOC Circular, PBOC has specified the procedures for obtaining approval for foreign direct investment into the PRC using Renminbi (including establishing a new enterprise, increasing the registered capital of an existing enterprise, acquiring an onshore enterprise, or providing loan facilities). As new circulars, the MOFCOM Circular and the PBOC Circular will be subject to interpretation and application by the relevant PRC authorities and there is no assurance that approval of such remittances will continue to be granted or will not be revoked in the future. Further, if any new PRC regulations are promulgated in the future which have the effect of permitting or restricting (as the case may be) the remittance of Renminbi for payment of transactions categorised as capital account items, then such remittances will need to be made subject to the specific requirements or restrictions set out in such rules.

TAXATION

The following summary of certain Singapore, Hong Kong and PRC tax consequences of the purchase, ownership and disposition of the Notes is general in nature and based upon certain aspects of applicable laws, regulations, announced budget measures, rulings and decisions and administrative guidelines issued by the relevant authorities in effect as of the date of this Offering Circular, all of which are subject to change or enactment of such budget measures or the interpretation of those laws and guidelines, occurring after such date (possibly with retroactive effect). These laws and guidelines are also subject to various interpretations and the relevant tax authorities or the courts could later disagree with the explanations or conclusions set out below. This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Notes and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Neither these statements nor any other statements in this Offering Circular are to be regarded as advice on the tax position of any holder of the Notes or any persons acquiring, selling or otherwise dealing in the Notes or on any tax implications arising from the acquisition, sale or other dealings in respect of the Notes. Persons considering the purchase of the Notes should consult their own tax advisers concerning the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

Singapore Taxation

Individual Income Tax

An individual is considered tax resident in Singapore in the year preceding the year of assessment ("**YA**") if he is physically present in Singapore or exercises an employment (other than as a director of a company) in Singapore for 183 days or more or if he resides in Singapore.

Individual taxpayers who are Singapore tax residents are subject to Singapore income tax on income accruing in or derived from Singapore. All income derived outside Singapore (i.e. foreign-sourced income) but received in Singapore by a Singapore tax resident individual (except for income received through a partnership in Singapore) is exempt from Singapore income tax if the Comptroller of Income Tax (the "**Comptroller**") is satisfied that the tax exemption would be beneficial to the individual.

A Singapore tax resident individual is taxed at progressive rates ranging from 0% to 20.0%. Non-resident individuals, subject to certain exceptions and conditions, are subject to Singapore income tax, generally at the rate of 20.0%, on income accruing in or derived from Singapore.

Corporate Income Tax

A company is tax resident in Singapore if the control and management of its business is exercised in Singapore.

Companies are subject to Singapore income tax on income accruing in or derived from Singapore and on foreign-sourced income which is received in Singapore or deemed to have been received in Singapore by the operation of law unless such income is otherwise exempt from tax.

The first S$300,000 of normal chargeable income of a company is exempt from tax as follows:

a) 75.0% of up to the first S$10,000 of normal chargeable income; and

b) 50.0% of up to the next S$290,000 of normal chargeable income.

For a new start-up company that meets certain qualifying conditions, it will be eligible for full tax exemption on the first S$100,000 and 50.0% tax exemption on the next S$200,000 of its normal chargeable income for each year in the first three consecutive YAs. This tax exemption scheme for new start-up companies is not available to investment holding companies and companies engaged in property development activities that are incorporated after 25 February 2013. These companies will be entitled to the partial tax exemption as discussed above.

The remaining chargeable income (after deducting the partial tax exemption on the first S$300,000 of normal chargeable income) will be taxed at the prevailing corporate income tax rate, currently 17.0%. It was proposed in the Singapore Budget 2013 that a 30.0% corporate income tax rebate, capped at S$30,000 per YA, will be granted to companies for three years from YA 2013 to YA 2015.

Interest and Other Payments on Notes

Under Section 12(6) of the Income Tax Act, Chapter 134 of Singapore ("**ITA**") the following payments are deemed to be derived from Singapore:

(a) any interest, commission, fee or any other payment in connection with any loan or indebtedness or with any arrangement, management, guarantee, or service relating to any loan or indebtedness which is (i) borne, directly or indirectly, by a person resident in Singapore or a permanent establishment in Singapore (except in respect of any business carried on outside Singapore through a permanent establishment outside Singapore or any immovable property situated outside Singapore) or (ii) deductible against any income accruing in or derived from Singapore; or

(b) any income derived from loans where the funds provided by such loans are brought into or used in Singapore.

Further, where such payments are made to a person not known to be a resident of Singapore for tax purposes, such payments are subject to withholding tax in Singapore at the rate of 17.0% for companies and 20.0% for individuals. However, if the payment is derived by a person not resident in Singapore from sources other than any trade, business, profession or vocation carried on or exercised by that person in Singapore and is not effectively connected with any permanent establishment of that person in Singapore, the withholding tax rate is 15.0%. The rate of 15.0% or 20.0% (as the case may be) may, however, be reduced by applicable tax treaties.

However, certain Singapore-sourced investment income derived by individuals from financial instruments is exempt from tax, including but not limited to:

(a) interest from debt securities;

(b) discount from debt securities; and

(c) prepayment fee, redemption premium and break cost from debt securities,

except where such income is derived through a partnership in Singapore or is derived from the carrying on of a trade, business or profession in Singapore.

In addition, as Morgan Stanley Asia (Singapore) Pte., the lead manager of the issue of the Notes, is a Financial Sector Incentive (Bond Market) Company as defined in the ITA, the Notes issued during the period from the date of this Offering Circular to 31 December 2013 (as announced by the Minister of Finance in the Singapore Budget 2013, this expiry date will be extended to 31 December 2018) would be "qualifying debt securities" for the purposes of the ITA, to which the following tax treatments shall apply:

(a) subject to certain prescribed conditions having been fulfilled (including the submission of a return on debt securities to the MAS and the Comptroller within a specified period and such other particulars in connection with the Notes as the Comptroller may require and subject to there being included in all offering documents relating to the Notes a statement to the effect that where interest, discount, prepayment fee, redemption premium or break cost is derived from the Notes by any person who is not resident in Singapore and who carries on any operation in Singapore through a permanent establishment in Singapore, the tax exemption in this paragraph does not apply if such person acquires the Notes using funds from Singapore operations), interest, discount income (not including discount income arising from secondary trading), prepayment fee, redemption premium and break cost (collectively, the "**Specified Income**") from the Notes derived by a holder who is not resident in Singapore and who does not have a permanent establishment in Singapore is exempt from Singapore income tax. Non-residents who have permanent establishments in Singapore can also benefit from this exemption provided that they do not acquire the Notes using any funds from Singapore operations. Funds from Singapore operations means, in relation to a person, the funds and profits of that person's operations through a permanent establishment in Singapore;

(b) subject to certain prescribed conditions having been fulfilled (including the submission of a return on debt securities to the MAS and the Comptroller within a specified period and such other particulars in connection with the Notes as the Comptroller may require), Specified Income from the Notes received by any company and any body of persons (as defined in the ITA), other than any non-resident who qualifies for the tax exemption as described in paragraph (a) above, is subject to income tax at a concessionary rate of 10.0%; and

(c) subject to:

  (i) there being included in all offering documents relating to the Notes a statement to the effect that any person whose Specified Income derived from the Notes is not exempt from tax shall include such income in a return of income made under the ITA; and

  (ii) the submission of a return on debt securities or prescribed letter to the MAS and the Comptroller within a specified period,

  Specified Income derived from the Notes is not subject to the withholding of tax by the Issuer.

However, notwithstanding the foregoing:

(A) if during the primary launch of the Notes, the Notes are issued to fewer than four persons and 50.0% or more of the issue of the Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer, such Notes would not qualify as "qualifying debt securities"; and

(B) even though the Notes are "qualifying debt securities", if at any time during the tenure of the Notes, 50.0% or more of the principal amount of the Notes is beneficially held or funded, directly or indirectly, by related parties of the Issuer of the Notes, Specified Income derived from the Notes held by:

  (a) any related party of the Issuer; or

  (b) any other person where the funds used by such person to acquire the Notes are obtained, directly or indirectly, from any related party of the Issuer,

  shall not be eligible for the tax exemption or concessionary rate of tax of 10.0% as described above.

The term "**related party**", in relation to a person, means any other person who, directly or indirectly, controls that person, or is controlled, directly or indirectly, by that person, or where he and that other person, directly or indirectly, are under the control of a common person.

The terms "break cost", "prepayment fee" and "redemption premium" are defined in the ITA as follows:

(a) "break cost" means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by any loss or liability incurred by the holder of the securities in connection with such redemption;

(b) "prepayment fee" means any fee payable by the issuer of the securities on the early redemption of the securities, the amount of which is determined by the terms of the issuance of the securities; and

(c) "redemption premium" means any premium payable by the issuer of the securities on the redemption of the securities upon their maturity.

References to “break cost”, “prepayment fee” and “redemption premium” in this Singapore tax disclosure have the same meaning as defined in the ITA.

Notwithstanding that payments under the Notes may be made without deduction or withholding of tax under Sections 45 or 45A of the ITA, any person whose Specified Income (whether it is interest, discount income, prepayment fee, redemption premium or break cost) derived from the Notes is not exempt from tax is required under the ITA to include such income in a return of income made under the ITA.

The 10.0% concessionary tax rate for income derived from qualifying debt securities does not apply to a financial sector incentive (standard-tier) company (within the meaning of Section 43N of the ITA).

Gains on disposal of the Notes

Singapore does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterisation of capital gains and hence, gains arising from the disposal of the Notes may be construed to be of an income nature and subject to income tax, especially if they arise from activities which the Comptroller would regard as the carrying on of a trade or business in Singapore.

Holders of the Notes who are adopting Financial Reporting Standard 39 — Financial Instruments: Recognition and Measurement (“**FRS 39**”) for Singapore income tax purposes may be required to recognise gains or losses (not being gains or losses in the nature of capital) on the Notes, irrespective of disposal, in accordance with FRS 39. Please see the section below on “Adoption of FRS 39 — Treatment for Singapore Income Tax Purposes”.

Adoption of FRS 39 — Treatment for Singapore Income Tax Purposes

The Inland Revenue Authority of Singapore has issued a circular entitled “Income Tax Implications Arising from the Adoption of FRS39 — Financial Instruments: Recognition and Measurement” (revised edition published on 29 June 2012) (the “**FRS 39 Circular**”). Legislative amendments to give legislative effect to the FRS 39 Circular have been enacted in Section 34A of the ITA.

The FRS 39 Circular and Section 34A of the ITA generally apply, subject to certain “opt-out” provisions, to taxpayers who are required to comply with FRS 39 for financial reporting purposes.

Holders of the Notes who may be subject to the tax treatment under the FRS 39 Circular and Section 34A of the ITA should consult their own accounting and tax advisers regarding the Singapore income tax consequences of their acquisition, holding or disposal of the Notes.

Stamp Duty

No stamp duty is payable on the subscription of the Notes.

Estate Duty

Singapore estate duty has been abolished with respect to all deaths occurring on or after 15 February 2008.

Hong Kong Taxation

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal or interest with respect to the Notes or in respect of any capital arising from the sale of Notes.

Profits tax

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "Inland Revenue Ordinance") as it is currently applied by the Inland Revenue Department, interest on the Notes may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

(a) interest on the Notes is received by or accrues to a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or

(b) interest on the Notes is derived from Hong Kong and is received by or accrues to a company (other than a financial institution) carrying on a trade, profession or business in Hong Kong; or

(c) interest on the Notes is derived from Hong Kong and is received by or accrues to a person (other than a company) carrying on a trade, profession or business in Hong Kong and is in respect of the funds of the trade, profession or business.

Sums derived from the sale, disposal or redemption of the Notes will be subject to Hong Kong profits tax where received by or accrued to a person who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source.

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of the Notes will be subject to profits tax.

Stamp duty

No stamp duty is payable on the issue of the Notes. Stamp duty may be payable on any transfer of the Notes as the relevant transfer is required to be registered in Hong Kong, but stamp duty will not be payable if the Notes constitute loan capital (as defined in the Stamp Duty Ordinance (Cap.117 of the Laws of Hong Kong) ("Stamp Duty Ordinance")). The Notes, under the present terms and conditions, constitute loan capital (as defined in the Stamp Duty Ordinance) and, accordingly, no Hong Kong stamp duty will be chargeable upon the issue, transfer or exchange of a Note.

Estate duty

No Hong Kong estate duty is payable in respect of the Notes.

PRC Taxation

The following summary accurately describes the principal PRC tax consequences of ownership of the Notes by beneficial owners who, or which, are not residents of mainland China for PRC tax purposes (non-PRC Noteholders). In considering whether to invest in the Notes, investors should consult their individual tax advisers with regard to the application of PRC tax laws to their particular situations as well as any tax consequences arising under the laws of any other tax jurisdiction. Reference is made to PRC taxes from the taxable year beginning on or after 1 January 2008.

Pursuant to the EIT Law and its implementation regulations, enterprises that are established under laws of foreign countries and regions (including Hong Kong, Macao and Taiwan) but whose "de facto management organisation" are within the territory of China shall be PRC tax resident enterprises for the purpose of the EIT Law and shall pay enterprise income tax at the rate of 25% in respect of their income sourced from both within and outside China. If the relevant PRC tax authorities decide, in accordance with applicable tax rules and regulations, that its "de facto management organisation" is within the territory of the PRC, the Company may be considered a PRC tax resident enterprise for the purpose of the EIT Law and be subject to enterprise income tax at the rate of 25% for its income sourced from both within and outside the PRC. As of the date of this Offering Circular, the Company confirms that it has not been notified or informed by the PRC tax authorities that it is deemed to be a PRC tax resident enterprise for the purpose of the EIT Law. However, there is no assurance that the Company will not be treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future. Pursuant to the EIT Law and its implementation regulations, any non-resident enterprise not established within the PRC or whose incomes have no actual connection to its establishment inside the PRC shall pay enterprise income tax at the rate of 10% on the incomes sourced inside the PRC, and such income tax shall be withheld, with the PRC payer acting as the obligatory withholder, who shall withhold the tax amount from each payment or payment due. Accordingly, in the event the Company is deemed to be a PRC tax resident enterprise by the PRC tax authorities in the future, the interest payable by the Company to the non-PRC Noteholders in respect of the Notes may be considered as income sourced within China and therefore would be subject to 10% enterprise income tax to be withheld by the Company from the payments of interest in respect of the Notes for any non-PRC enterprise Noteholder, or 20% individual income tax for any non-PRC individual Noteholder, unless such income tax is exempted or reduced pursuant to any applicable tax treaty or arrangement. However, despite the potential withholding of the PRC tax by the Company, the Company has agreed to pay additional amounts to holders of the Notes so that holders of the Notes receive the full amount of the scheduled payment, as further set out in the "Terms and Conditions of the Notes".

Non-PRC Noteholders will not be subject to the PRC tax on any capital gains derived from a sale or exchange of Notes consummated outside mainland China between non-PRC Noteholders, except, however, if the Company is treated as a PRC tax resident enterprise under the EIT Law and related implementation regulations in the future, any gain realised by the non-PRC Noteholders from the transfer of the Notes may be regarded as being derived from sources within the PRC and accordingly would be subject to up to 10% PRC income tax for any non-PRC enterprise Noteholder or 20% income tax for any non-PRC individual Noteholder, unless such income tax is exempted or reduced pursuant to any applicable tax treaty or arrangement. No PRC stamp duty will be imposed on non-PRC holders either upon issuance of the Notes or upon a subsequent transfer of Notes.

EU Directive on the taxation of savings income

Under EC Council Directive 2003/48/EC on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

The proposed financial transactions tax ("FTT")

The European Commission has published a proposal for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**").

The proposed FTT has very broad scope and could, if introduced in its current form, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances.

Under current proposals the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The FTT proposal remains subject to negotiation between the participating Member States and is the subject of legal challenge. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate. Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

SUBSCRIPTION AND SALE

The Company has entered into a subscription agreement with Morgan Stanley Asia (Singapore) Pte. (the "**Sole Lead Manager**"), China CITIC Bank International Limited ("**CNCBI**"), CITIC Securities Corporate Finance (HK) Limited ("**CSCF**") and Industrial and Commercial Bank of China (Asia) Limited ("**ICBC Asia**") (the Sole Lead Manager together with CNCBI, CSCF and ICBC Asia, the "**Managers**"), dated 30 July 2013 (the "**Subscription Agreement**"), pursuant to which and subject to certain conditions contained therein, the Company has agreed to sell to the Managers, and the Managers have agreed to subscribe and pay for, or to procure subscribers to subscribe and pay for, the aggregate principal amount of the Notes.

The Subscription Agreement provides that the Company will indemnify the Managers and their affiliates against certain liabilities in connection with the offer and sale of the Notes. The Subscription Agreement also provides that the obligations of the Managers are subject to certain conditions precedent and entitles the Managers to terminate the Subscription Agreement in certain circumstances at any time up to the time when subscription moneys have been received and the Notes issued.

The Company has agreed to reimburse the Managers for certain of its expenses incurred in connection with the issue and offering of the Notes. The Company has agreed to indemnify the Managers against certain liabilities in connection with the offer and sale of the Notes.

The Managers and their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities ("**Banking Services or Transactions**"). In the ordinary course of their various business activities, the Managers and their affiliates may have, from time to time, performed, and may in the future perform, various Banking Services or Transactions with the Company for which they have received or will receive, fees and expenses.

In connection with the Offering of the Notes, the Managers and/or their respective affiliates, or affiliates of the Company, may place orders, receive allocations and purchase Notes for their own account (without a view to distributing such Notes). Such entities may hold or sell such Notes or purchase further Notes for their own account in the secondary market or deal in any other securities of the Company, and therefore, they may offer or sell the Notes or other securities otherwise than in connection with the Offering. Accordingly, references herein to the Notes being 'offered' should be read as including any offering of the Notes to the Managers and/or their respective affiliates, or affiliates of the Company for their own account. Such entities are not expected to disclose such transactions or the extent of any such investment, otherwise than in accordance with any legal or regulatory obligation to do so. Furthermore, it is possible that only a limited number of investors may subscribe for a significant proportion of the Notes. If this is the case, liquidity of trading in the Notes may be constrained (see "Risk Factors — A trading market for the Notes may not develop and there are restrictions on resales of the Notes"). The Company and the Managers are under no obligation to disclose the extent of the distribution of the Notes amongst individual investors.

Some of the Managers and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Company. The Managers have received, or may in the future receive, customary fees and commissions for these transactions.

In the ordinary course of their various business activities, the Managers and their respective affiliates make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers, and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Company, including the Notes. Certain of the Managers or their affiliates that have a lending relationship with the Company routinely hedge their credit exposure to the Company consistent with their customary risk management policies. Typically, such Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Company's securities, including potentially the Notes offered hereby. Any such short positions could adversely affect future trading prices of the Notes offered hereby. The Managers and their affiliates may make investment recommendations and/or publish or express independent research views (positive or negative) in respect of the Notes or other financial instruments of the Company, and may recommend to their clients that they acquire long and/or short positions in the Notes or other financial instruments.

In connection with the issue of the Notes, Morgan Stanley Asia (Singapore) Pte. (the "**Stabilising Manager**") or any person acting on behalf of the Stabilising Manager may, to the extent permitted by applicable laws and directives, over-allot the Notes or effect transactions with a view to supporting the price of the Notes at a level higher than that which might otherwise prevail, but in so doing, the Stabilising Manager or any person acting on behalf of the Stabilising Manager shall act as principal and not as agent of the Company. However, there is no assurance that the Stabilising Manager or any person acting on behalf of the Stabilising Manager will undertake stabilisation action. Any loss or profit sustained as a consequence of any such overallotment or stabilisation shall be for the account of the Stabilising Manager.

General

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Notes is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Company or the Managers that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Notes, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed resale of the Notes or any other offering or publicity material relating to the Notes, in any country or jurisdiction where action for that purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Notes may be distributed or published, by the Company or the Managers, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Company or the Managers.

United States

Each of the Managers has understood that the Notes and the Guarantees have not been and will not be registered under the Securities Act of 1933, as amended (the "Securities Act"). Subject to certain exceptions, the Notes and the Guarantees may not be offered, sold or delivered within the United States. Each of the Managers has agreed that it will not offer, sell or deliver any Notes or the Guarantees except in accordance with Rule 903 of Regulation S under Securities Act.

United Kingdom

Each of the Managers has represented and agreed that:

(i) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "FSMA") with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom; and

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Company.

Singapore

This Offering Circular has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289) of Singapore (the "Securities and Futures Act"). Accordingly, each of the Managers has represented and agreed that the Notes may not be offered or sold or made the subject of an invitation for subscription or purchase, nor may this Offering Circular or any other document or material in connection with the offer or sale or invitation for subscription or purchase of any Notes be circulated or distributed, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor pursuant to Section 274 of the Securities and Futures Act, (b) to a relevant person under Section 275(1) of the Securities and Futures Act or any person pursuant to Section 275(1A) of the Securities and Futures Act, and in accordance with the conditions specified in Section 275 of the Securities and Futures Act, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Notes are subscribed or purchased under Section 275 of the Securities and Futures Act by a relevant person which is:

(1) a corporation (which is not an accredited investor (as defined in Section 4A of the Securities and Futures Act)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(2) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an individual who is an accredited investor,

the shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the Notes pursuant to an offer under Section 275 of the Securities and Futures Act except where:

(i) the transfer is made only to an institutional investor (in the case of a corporation, under Section 274 of the Securities and Futures Act) or to a relevant person defined in Section 275(2) of the Securities and Futures Act, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the Conditions specified in Section 275(1A) of the Securities and Futures Act; or

(ii) no consideration is or will be given for the transfer; or

(iii) the transfer is by operation of law.

Hong Kong

Each of the Managers has represented and agreed that:

(1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Notes other than (i) to "professional investors" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance or (ii) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and

(2) its has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Notes, which is directed at, or the contents of which are

likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

The PRC

Each of the Managers has represented and agreed that the Notes are not being offered or sold and may not be offered or sold, directly or indirectly, in the People's Republic of China (for such purposes, not including Hong Kong, Macao or Taiwan), except as permitted by the securities laws of the People's Republic of China.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (the "Financial Instruments and Exchange Act") and, accordingly, each of the Managers has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Act and other relevant laws and regulations of Japan.

GENERAL INFORMATION

1 **Clearing System**: The Notes will be lodged and cleared through the CMU. The CMU instrument number for the Notes is CILHFN13017. For persons seeking to hold a beneficial interest in the Notes through Euroclear or Clearstream, Luxembourg, such persons will hold their interests through an account opened and held by Euroclear or Clearstream, Luxembourg with the CMU operator. The Common Code of the Notes is 095558348. The ISIN No. is HK0000157989.

2 **Authorisations**: The Company has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Notes. The issue of the Notes was authorised by written resolutions of the board of directors of the Company dated 12 June 2013.

3 **Listing**: Approval-in-principle has been received for the listing and quotation of the Notes on the Official List of the SGX-ST. The SGX-ST assumes no responsibility for the correctness of the statements made, opinions expressed or reports contained in this Offering Circular. The approval-in-principle for the listing and quotation of the Notes is not to be taken as an indication of the merits of the Notes. The Notes will be traded on the SGX-ST in a minimum board lot size of SGD200,000 with a minimum of six lots to be traded in a single transaction for so long as the Notes are listed on the SGX-ST.

Permission will be granted when the Notes have been admitted to the Official List of the SGX-ST. So long as the Notes are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where the Notes may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.

4 **No Material Adverse Change**: There has been no material adverse change in the consolidated financial or trading position or prospects of the Group since 30 April 2013.

5 **Litigation**: The Company is currently not a party to any material legal or administrative proceedings and is not aware of any pending or threatened legal or administrative proceedings against it that are material in the context of issuance of the Notes. The Company may from time to time become a party to various legal or administrative proceedings arising in the ordinary course of its business.

6 **Available Documents**: Copies of the annual reports of the Company for the years ended 31 December 2010, 2011 and 2012 and the interim report for the four months ended 30 April 2013, the Trust Deed and the Agency Agreement relating to the Notes will be available for inspection from the Issue Date at the registered office of the Company at 80 Robinson Road, #02-00, Singapore 068898, and at the corporate trust office of the Trustee during normal business hours on business days, so long as any Note is outstanding. The Company prepares and publishes an annual report every year and an interim report semi-annually. Copies of the annual report and interim report of the Company in respect of the latest year and period can be obtained from its corporate website.

7 **Financial Statements**: The audited consolidated financial statements of the Group as of and for the years ended 31 December 2010, 2011 and 2012 which are included elsewhere in this Offering Circular, have been audited by Ernst & Young LLP, 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 unaudited condensed consolidated financial information of the Group as of and for the four months ended 30 April 2013, which are included elsewhere in this Offering Circular, have been reviewed by Ernst & Young LLP.

With respect to the unaudited condensed consolidated financial information of the Group as of and for the four months ended 30 April 2013, Ernst & Young LLP reported that they have applied limited procedures in accordance with International Standards on Review Engagement 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity (ISRE 2410)*. However, their report states that they did not audit and they do not express an audit opinion on those interim financial information. Their report also states that financial information as of and for the four months ended 30 April 2012 have not been reviewed in accordance with ISRE 2410.

8 **Reliance by the Trustee**: The Trustee may rely without liability to the Noteholders on any certificate prepared by the directors of the Issuer and accompanied by a certificate or report prepared by an internationally recognised firm of accountants pursuant to the Terms and Conditions of the Notes and/or the Trust Deed whether or not addressed to the Trustee, and whether or not the internationally recognised firm of accountants' liability in respect thereof is limited by a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to an obligation of the Issuer and to procure such delivery under the Terms and Conditions of the Notes. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Noteholders.

INDEX TO FINANCIAL STATEMENTS OF THE GROUP

INDEX TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL INFORMATION FOR THE FOUR MONTHS ENDED 30 APRIL 2013

The following is a reproduction of the unaudited condensed consolidated financial information of the Group for the four months ended 30 April 2013 together with the independent auditor's review report.

Other than the references made in this contents page, references to a page number refer to the original page number of the Group's unaudited condensed consolidated financial information as at and for the four months ended 30 April 2013.

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

The following is a reproduction of the audited consolidated financial statements of the Group for the year ended 31 December 2012 together with the independent auditor's report.

Other than the references made in this contents page, references to a page number refer to the original page number of the Group's audited financial statements as at and for the year ended 31 December 2012.

INDEX TO AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2011

The following is a reproduction of the audited consolidated financial statements of the Group for the year ended 31 December 2011 together with the independent auditor's report.

Other than the references made in this contents page, references to a page number refer to the original page number of the Group's audited financial statements as at and for the year ended 31 December 2011.

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
To the board of directors of
China XLX Fertiliser Ltd.
(Incorporated in Singapore with limited liability)

INTRODUCTION

We have reviewed the accompanying condensed consolidated interim statement of financial position of China XLX Fertiliser Ltd. and its subsidiaries as at 30 April 2013, and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the four months ended 30 April 2013 and explanatory information.

Management is responsible for the preparation and presentation of these condensed consolidated interim financial information in accordance with Singapore Financial Reporting Standards SFRS 34 *Interim Financial Reporting* ("SFRS 34"). Our responsibility is to express a conclusion on these condensed consolidated interim financial information based on our review.

SCOPE OF REVIEW

We conducted our review in accordance with International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* ("ISRE 2410"). A review of interim 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 International 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, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with SFRS 34.

OTHER MATTER

We draw attention to the fact that the comparative condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the four months ended 30 April 2012 and the relevant explanatory information disclosed in the condensed consolidated interim financial information have not been reviewed in accordance with ISRE 2410.

Ernst & Young LLP
Public Accountants and *Certified Public Accountants*
Singapore

14 June 2013

CHINA XLX FERTILISER LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the four months ended 30 April 2013

	Notes	Four months ended 30 April 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
REVENUE	4	1,336,514	1,367,851
Cost of sales		(1,029,805)	(1,151,993)
Gross profit		306,709	215,858
Other income, net	4	5,324	5,319
Selling and distribution expenses		(22,679)	(21,122)
General and administrative expenses		(78,930)	(60,208)
Finance costs	5	(24,499)	(27,041)
PROFIT BEFORE TAX	6	185,925	112,806
Income tax expense	7	(29,266)	(17,272)
PROFIT FOR THE PERIOD		156,659	95,534
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investment:			
Change in fair value		4,326	1,959
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		4,326	1,959
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		160,985	97,493
Profit attributable to:			
Owners of the parent		157,157	95,534
Non-controlling interest		(498)	-
		156,659	95,534

CHINA XLX FERTILISER LTD.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (continued)

For the four months ended 30 April 2013

	Notes	Four months ended 30 April 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Total comprehensive income attributable to:			
Owners of the parent		161,483	97,493
Non-controlling interest		(498)	-
		160,985	97,493
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB cents per share)	9	13.4	8.1

Details of the dividend paid and proposed for the period are disclosed in note 8 to the condensed consolidated interim financial information.

CHINA XLX FERTILISER LTD.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 April 2013

	Notes	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,672,216	3,019,025
Prepaid land lease payments		174,009	175,290
Goodwill		6,950	6,950
Coal mining right		41,427	41,955
Available-for-sale investment	12	7,500	7,500
Deferred tax assets		4,706	4,706
Prepayments for purchases of items of plant and equipment	11	685,589	721,626
Total non-current assets		4,592,397	3,977,052
CURRENT ASSETS			
Due from a related company		2,128	1,760
Available-for-sale investment	12	9,027	4,701
Inventories		348,191	432,366
Trade receivables	13	24,696	15,520
Bills receivable	13	1,650	1,740
Prepayments	11	121,643	140,630
Deposits and other receivables	11	105,643	49,080
Income tax recoverable		2,959	3,858
Pledged deposits	14	12,900	12,900
Cash and cash equivalents	14	462,311	477,610
Total current assets		1,091,148	1,140,165
Total assets		5,683,545	5,117,217
CURRENT LIABILITIES			
Due to related companies		4,616	135
Trade payables	15	75,030	110,773
Bills payable		25,800	25,800
Accruals and other payables		564,279	422,437
Income tax payable		4	4
Deferred grants		3,596	3,596
Interest-bearing bank and other borrowings	16	178,250	172,000
Short-term bond payable		300,000	300,000
Total current liabilities		1,151,575	1,034,745
NET CURRENT (LIABILITIES)/ASSETS		(60,427)	105,420
TOTAL ASSETS LESS CURRENT LIABILITIES		4,531,970	4,082,472

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

As at 30 April 2013

	Note	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	2,028,612	1,679,485
Deferred grants		25,980	23,474
Deferred tax liabilities		50,961	51,081
Total non-current liabilities		2,105,553	1,754,040
Total liabilities		3,257,128	2,788,785
Net assets		2,426,417	2,328,432
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital		836,671	836,671
Convertible bonds		327,235	322,436
Statutory reserve fund		184,569	167,873
Available-for-sale investment revaluation reserve		4,326	-
Retained profits		1,066,884	931,222
Proposed final dividend		-	63,000
		2,419,685	2,321,202
Non-controlling interest		6,732	7,230
Total equity		2,426,417	2,328,432

CHINA XLX FERTILISER LTD.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the four months ended 30 April 2013

Group

	Attributable to owners of the Company								
	Issued capital RMB'000	Convertible bonds RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve fund# RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
(Unaudited)									
At 1 January 2013	836,671	322,436	-	167,873	931,222	63,000	2,321,202	7,230	2,328,432
Profit for the period	-	-	-	-	157,157	-	157,157	(498)	156,659
Other comprehensive income for the period:									
Change in fair value of an available-for-sale investment	-	-	4,326	-	-	-	4,326	-	4,326
Total comprehensive income for the period	-	-	4,326	-	157,157	-	161,483	(498)	160,985
Transfer to statutory reserve fund	-	-	-	16,696	(16,696)	-	-	-	-
2012 final dividend declared	-	-	-	-	-	(63,000)	(63,000)	-	(63,000)
Convertible bonds interests	-	4,799	-	-	(4,799)	-	-	-	-
At 30 April 2013	836,671	327,235	4,326	184,569	1,066,884	-	2,419,685	6,732	2,426,417
(Unaudited)									
At 1 January 2012	836,671	321,996	-	133,655	732,355	37,000	2,061,677	-	2,061,677
Profit for the period	-	-	-	-	95,534	-	95,534	-	95,534
Other comprehensive income for the year:									
Change in fair value of an available-for-sale investment	-	-	1,959	-	-	-	1,959	-	1,959
Total comprehensive income for the year	-	-	1,959	-	95,534	-	97,493	-	97,493
Transfer to statutory reserve fund	-	-	-	9,964	(9,964)	-	-	-	-
2011 final dividend declared	-	-	-	-	-	(37,000)	(37,000)	-	(37,000)
Convertible bonds interests	-	5,239	-	-	(5,239)	-	-	-	-
At 30 April 2012	836,671	327,235	1,959	143,619	812,686	-	2,122,170	-	2,122,170

\# Pursuant to the relevant laws and regulations in the People's Republic of China (the "PRC"), this portion of the profits of the Group's wholly-owned foreign enterprise has been transferred to a statutory reserve fund, which is restricted as to use.

CHINA XLX FERTILISER LTD.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the four months ended 30 April 2013

	Note	Four months ended 30 April 2013 RMB'000 (Unaudited)	2012 RMB'000 (Unaudited)
Net cash flows from operating activities		248,897	246,841
Net cash flows used in investing activities		(556,573)	(66,067)
Net cash flows from/(used in) financing activities		292,377	(261,500)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(15,299)	(80,726)
Cash and cash equivalents at beginning of period		477,610	514,098
Cash and cash equivalents at end of period		462,311	433,372
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	14	462,311	433,372

1. CORPORATE INFORMATION

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are dual primary listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at 80 Robinson Road, #02-00, Singapore 068898. The principal place of business of the Group is located at the Xinxiang High Technology Development Zone, West Zone, Henan Province, the People's Republic of China (the "PRC"). The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are the manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution, and coal mining and sales of coal.

2.1 BASIS OF PREPARATION

The condensed consolidated interim financial information has been prepared in accordance with Singapore Financial Reporting Standard ("SFRS") 34 "Interim Financial Reporting" issued by the Singapore Accounting Standards Council and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the relevant regulations of the SGX-ST.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2012.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies adopted in the preparation of the condensed consolidated interim financial information of the Group are consistent with those followed in the preparation of the annual financial statements for the year ended 31 December 2012, except for the adoption of the following new and revised SFRSs for the first time for the current period's condensed consolidated interim financial information.

- Revised SFRS 19 *Employee Benefits*
- SFRS 113 *Fair Value Measurement*
- Amendments to SFRS 101 – *Government Loans*
- Amendments to SFRS 107 *Disclosures – Offsetting Financial Assets and Financial Liabilities*
- Improvements to SFRSs 2012
    - Amendment to SFRS 1 *Presentation of Financial Statements*
    - Amendment to SFRS 16 *Property, Plant and Equipment*
    - Amendment to SFRS 32 *Financial Instruments: Presentation*
    - Amendment to SFRS 34 *Interim Financial Reporting*
    - Amendment to SFRS 101 *First-time adoption of International Financial Reporting Standards*
- INT SFRS 120 *Stripping Costs in the Production of a Surface Mine*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

The adoption of these standards and interpretation did not have material effect on the results or financial position of the condensed consolidated interim financial information.

3. OPERATING SEGMENT INFORMATION

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 a neutral nitrogen-based fertiliser which is suitable for various crops and land. It does 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 pharmaceutical industries.

(ii) Compound fertiliser

Compound fertiliser is a type of round, hard, 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 toxic liquid alcohol. 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.

3. OPERATING SEGMENT INFORMATION (continued)

In addition to the three main operating segments, the Group is involved in the production of liquid ammonia and ammonia solution. In addition, the Group had acquired a subsidiary that is engaged in coal mining and the sale of coal in November 2011. However, in the opinion of the directors, there were only limited operations in this subsidiary after the acquisition by the Group and the assets and liabilities were not material for the purpose of segment reporting. Accordingly, a separate operating segment for the coal mining business carried out by the new subsidiary has not been presented.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the condensed consolidated interim financial information. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Allocation basis

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 income, other expenses, selling and distribution expenses, general and administrative expenses, finance costs and income tax expense.

Group assets and liabilities cannot be directly attributable to individual segments as it is impracticable to allocate them to the segments. Except for the assets and liabilities of the newly acquired subsidiary mentioned above which were not material for the purpose of segment reporting, assets of the Group are utilised interchangeably between 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.

3. OPERATING SEGMENT INFORMATION (continued)

For the four months ended 30 April 2013

	Urea RMB'000 (Unaudited)	Compound fertiliser RMB'000 (Unaudited)	Methanol RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUE						
Sales to external customers	861,256	310,261	162,399	2,598	-	1,336,514
Intersegment sales	117,382	-	-	1,861	(119,243)	-
Total revenue	978,638	310,261	162,399	4,459	(119,243)	1,336,514
Segment profit/(loss)	241,478	55,728	9,784	(281)	-	306,709
Interest income						740
Unallocated expenses, net						(97,025)
Finance costs						(24,499)
Profit before tax						185,925
Income tax expense						(29,266)
Net profit attributable to owners of the parent						156,659

For the four months ended 30 April 2012

	Urea RMB'000 (Unaudited)	Compound fertiliser RMB'000 (Unaudited)	Methanol RMB'000 (Unaudited)	Others RMB'000 (Unaudited)	Eliminations RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
REVENUE						
Sales to external customers	881,097	318,409	164,727	3,618	-	1,367,851
Intersegment sales	109,681	-	-	2,174	(111,855)	-
Total revenue	990,778	318,409	164,727	5,792	(111,855)	1,367,851
Segment profit/(loss)	179,323	44,466	(8,156)	225	-	215,858
Interest income						1,351
Unallocated expenses, net						(77,362)
Finance costs						(27,041)
Profit before tax						112,806
Income tax expense						(17,272)
Net profit attributable to owners of the parent						95,534

4. REVENUE AND OTHER INCOME, NET

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.

An analysis of the Group's revenue, other income and other expenses is as follows:

	Four months ended 30 April	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Revenue		
Sale of goods	1,336,514	1,367,851

	Four months ended 30 April	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Other income		
Bank interest income	740	1,351
Net profit from sales of by-products	2,872	2,751
Amortisation of deferred grants	374	350
Compensation income	317	1,040
Subsidy income	24	609
Exchange gain, net	2,703	-
Others	34	93
	7,064	6,194
Other expenses		
Loss on disposal of items of property, plant and equipment	1,483	475
Others	257	400
	1,740	875
Other income, net	5,324	5,319

5. FINANCE COSTS

	Four months ended 30 April 2013 RMB'000 (Unaudited)	Four months ended 30 April 2012 RMB'000 (Unaudited)
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	33,740	28,226
Interest on bank loans, overdrafts and other loans, wholly repayable after five years	10,201	5,304
Less: interest capitalised	(19,442)	(6,489)
	24,499	27,041

6. PROFIT BEFORE TAX

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

	Four months ended 30 April 2013 RMB'000 (Unaudited)	Four months ended 30 April 2012 RMB'000 (Unaudited)
Cost of inventories sold	1,029,805	1,151,993
Depreciation of property, plant and equipment	60,127	58,734
Amortisation of prepaid land lease payments	1,281	672
Amortisation of coal mining right	528	512
Minimum lease payments under operating leases:		
Land	230	706
Buildings	746	80
	976	786
Employee benefit expenses (including directors' remuneration):		
Salaries and bonuses	87,955	66,516
Contributions to defined contribution plans	15,998	19,032
Welfare expenses	9,589	5,473
	113,542	91,021
Auditors' remuneration	-	425
Exchange gain, net	(2,703)	-
Loss on disposal of items of property, plant and equipment	1,483	475

7. INCOME TAX

The Company is incorporated in Singapore and is subject to an income tax rate of 17% for the four months ended 30 April 2013 (four months ended 30 April 2012: 17%).

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

For the four months ended 30 April 2013 and 30 April 2012, one of the subsidiaries was subject to a concessionary tax rate of 15.0% as it obtained the New/High Technology award.

The major components of income tax expense for the four months ended 30 April 2013 and 2012 are:

	Four months ended 30 April	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current - PRC		
Charge for the period and total tax charge for the period	29,266	17,272

8. DIVIDENDS

Final dividend of RMB63,000,000 (year ended 31 December 2011: RMB37,000,000) for the year ended 31 December 2012 was declared during the four months ended 30 April 2013 and will be paid in May 2013.

The Company did not recommend or declare any interim dividend for the four months ended 30 April 2013 (four months ended 30 April 2012: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

Earnings per share is calculated by dividing the Group's profit for the period attributable to ordinary equity holders of the Company by the weighted average number of 1,176,000,000 (four months ended 30 April 2012: 1,176,000,000) ordinary shares (inclusive of mandatorily convertible instruments issued) outstanding during the period.

There were no potentially dilutive ordinary shares in existence during the four months ended 30 April 2013 and 2012 and therefore the diluted earnings per share amounts for those periods were the same as the basic earnings per share amounts.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, payments for purchases of items of property, plant and equipment and proceeds from disposal of items of property, plant and equipment of the Group amounted to approximately RMB695,946,000 and RMB587,000 (four months ended 30 April 2012: RMB76,550,000 and RMB5,483,000), respectively.

11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT		
Prepayments for purchases of items of plant and equipment	685,589	721,626
CURRENT		
Prepayments	121,643	140,630
Deposits and other receivables	105,643	49,080

12. AVAILABLE-FOR-SALE INVESTMENTS

The investments represent investments in equity securities and are designated as available-for-sale financial assets and have no fixed maturity or coupon rate.

The available-for-sale investment classified as non-current is an unlisted equity investment which the Group made in a company incorporated in the PRC in March 2012 and May 2012. The available-for-sale investment classified as current is a listed equity investment in Singapore which had a revaluation gain of RMB4,326,000 for the four months ended 30 April 2013 (four months ended 31 April 2012: RMB1,959,000) which has been credited to the available-for-sale investment revaluation reserve in the condensed consolidated statement of financial position.

13. TRADE AND BILLS RECEIVABLES

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade receivables	24,696	15,520
Bills receivable	1,650	1,740
	26,346	17,260

Trade receivables are non-interest-bearing and are normally settled on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values on initial recognition. The Group's bills receivable are non-interest-bearing and are normally settled on terms of 90 to 180 days. Trade and bills receivables are denominated in Renminbi ("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. The Group does not hold any collateral or other credit enhancements over these balances.

An aged analysis of the trade receivables at the end of the reporting period, based on the invoice due date and net of provisions, is as follows:

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within 1 month	15,606	13,876
1 to 3 months	7,756	830
3 to 6 months	1,027	469
6 to 12 months	82	345
More than 12 months	225	-
	24,696	15,520

14. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Time deposits	40,900	12,900
Less: Pledged time deposits	(12,900)	(12,900)
	28,000	-
Cash at banks and on hand	434,311	477,610
Cash and cash equivalents	462,311	477,610

At 30 April 2013, the cash and cash equivalents of the Group denominated in RMB amounted to RMB461,681,000 (31 December 2012: RMB424,567,000). 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.

15. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within 1 month	54,903	44,495
1 to 3 months	4,154	55,750
3 to 6 months	9,207	4,948
6 to 12 months	1,935	1,941
Over 12 months	4,831	3,639
	75,030	110,773

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. Trade payables are denominated in RMB.

16. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 April 2013			31 December 2012		
	Contractual interest rate	Maturity	RMB'000 (Unaudited)	Contractual interest rate	Maturity	RMB'000 (Audited)
CURRENT						
Bank loans						
- unsecured	5.6% - 7.3%	March 2014	178,250	5.6% - 6.5%	2013	172,000
NON-CURRENT						
Bank loans						
- unsecured	6.0% - 7.1%	April 2014 - 2018	2,021,339	1.8% - 7.3%	2014 - 2018	1,672,212
Loan from the government						
- unsecured (note)	Floating rate at 0.3% above the market prime lending rate	2020	7,273	Floating rate at 0.3% above the market prime lending rate	2020	7,273
			2,028,612			1,679,485
			2,206,862			1,851,485

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year or on demand	178,250	172,000
In the second year	823,794	965,212
In the third to fifth years, inclusive	1,063,545	247,000
Beyond five years	134,000	460,000
	2,199,589	1,844,212
Other borrowings repayable:		
In the third to fifth years, inclusive	7,273	7,273
	2,206,862	1,851,485

Note: The loan from the government bears interest at a floating rate of 0.3% (2012: 0.3%) per annum 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 interest-bearing bank and other borrowings approximate to their carrying values.

17. NOTES TO THE CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transaction - interest capitalisation:

During the period, the Group capitalised interest expenses of RMB19,442,000 (2012: RMB6,489,000) to property, plant and equipment.

18. CONTINGENT LIABILITIES

At the end of the reporting period, the Group did not have any significant contingent liabilities.

19. OPERATING LEASE ARRANGEMENTS

At the end of the reporting period, the Group had outstanding operating lease agreements for buildings in Mainland China. Certain of these leases have options for renewal. Future minimum rentals payable under non-cancellable operating leases at the end of the reporting period are as follows:

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within one year	43,938	19,420
In the second to fifth years, inclusive	273,932	297,956
After five years	31,256	32,105
	349,126	349,481

20. COMMITMENTS

In addition to the operating lease commitments detailed in note 19 above, the Group had the following capital and other commitments at the end of the reporting period:

	30 April 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Capital commitments:		
Contracted, but not provided for		
Buildings	344,286	223,396
Plant and machinery	1,084,858	978,518
	1,429,144	1,201,914
Authorised, but not contracted for		
Plant and machinery	1,554,612	2,689,163
	2,983,756	3,891,077
Other commitments:		
Purchases of raw materials	-	2,078

21. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in this condensed consolidated interim financial information, the Group had the following transactions with related parties during the period:

	Four months ended 30 April	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of electricity, water and steam to:		
- Henan Shenzhou Heavy Sealing Co., Ltd. #	533	386
- Xinxiang Xinlianxin Gas Products Co., Ltd. #	-	3,176
- Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #	36	7
- Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #	59	64
- Xinxiang Yuyuan Chemical Co., Ltd. #	10	255
- Xinxiang Xinlianxin Hotel Co., Ltd. #	68	48
Service fee income for provision of calibration and testing services to:		
- Henan Shenzhou Heavy Sealing Co., Ltd. #	13	13
- Xinxiang Xinlianxin Gas Products Co., Ltd. #	-	2
- Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #	7	9
- Xinxiang Yuyuan Chemical Co., Ltd. #	203	6
Sales of raw materials and consumables to:		
- Henan Shenzhou Heavy Sealing Co., Ltd. #	1	-
Purchases of raw materials and consumables from:		
- Xinxiang Xinlianxin Gas Products Co., Ltd. #	-	70
- Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #	-	542
Purchases of items of property, plant and equipment from:		
- Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #	7,046	-
Service fee expenses for provision of lifting services from:		
- Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #	1,163	717
Operating lease expenses to:		
- Henan Xinlianxin Chemicals Group Co., Ltd. #	746	80
Service fee expenses to:		
- Xinxiang Xinlianxin Hotel Co., Ltd. #	920	1,232
- Xinxiang City Eight Mile Gully Resort Co., Ltd.#	217	33

22. RELATED PARTY TRANSACTIONS (continued)

(a) (continued)

These companies are subsidiaries of Henan Xinlianxin Chemicals Group Co., Ltd. ("Henan Chemicals"), which have common shareholders with the Company. The Company's executive directors and executive officers have certain equity interests and significant influence in Henan Chemicals.

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

	Four months ended 30 April	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Directors' fee	267	267
Salaries and bonuses	2,126	997
Contributions to defined contribution plans	17	21
Total compensation paid to key management personnel	2,410	1,285

22. SEASONALITY OF OPERATIONS

Due to the seasonal weather conditions, the sales of compound fertiliser are subject to seasonal fluctuations, with peak demand in the third quarter of the year.

23. APPROVAL OF THE INTERIM FINANCIAL INFORMATION

The condensed consolidated interim financial information for the financial period from 1 January 2013 to 30 April 2013 was approved and authorised for issue in accordance with a resolution of the board of directors on 14 June 2013.

To the shareholders of China XLX Fertiliser Ltd.
(Incorporated in Singapore with limited liability)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of China XLX Fertiliser Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 83 to 155, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2012, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "Act") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2012 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
One Raffles Quay
North Tower, Level 18
Singapore

25 February 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	6	3,945,584	3,688,233
Cost of sales		(3,225,942)	(3,181,860)
Gross profit		719,642	506,373
Other income and gains	6	29,080	23,986
Selling and distribution expenses		(69,462)	(70,500)
General and administrative expenses		(202,493)	(136,059)
Other expenses		(22,387)	(20,025)
Finance costs	8	(82,359)	(78,930)
PROFIT BEFORE TAX	7	372,021	224,845
Income tax expense	11	(61,020)	(44,337)
Profit for the year	12	311,001	180,508
OTHER COMPREHENSIVE INCOME			
Available-for-sale investment:			
Change in fair value		(1,004)	(16,073)
Reclassification adjustment for impairment loss included in profit or loss		1,004	16,073
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		311,001	180,508
Profit attributable to:			
Owners of the parent		311,121	180,508
Non-controlling interest		(120)	–
		311,001	180,508
Total comprehensive income attributable to:			
Owners of the parent		311,121	180,508
Non-controlling interest		(120)	–
		311,001	180,508
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB cents per share)			
Basic and diluted	14	26.46	17.96

Details of the dividend proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	3,019,025	2,542,168
Prepaid land lease payments	16	175,290	89,165
Goodwill	17	6,950	6,950
Coal mining right	18	41,955	41,763
Available-for-sale investment	19	7,500	–
Deferred tax assets	33	4,706	–
Prepayments for purchases of items of plant and equipment	23	721,626	216,822
Total non-current assets		3,977,052	2,896,868
CURRENT ASSETS			
Due from a related company	25	1,760	–
Available-for-sale investment	19	4,701	5,705
Inventories	21	432,366	593,114
Trade receivables	22	15,520	28,725
Bills receivable	22	1,740	2,050
Prepayments	23	140,630	116,533
Deposits and other receivables	23	49,080	13,339
Income tax recoverable		3,858	7,263
Pledged deposits	24, 27	12,900	10,000
Cash and cash equivalents	24	477,610	514,098
Total current assets		1,140,165	1,290,827
Total assets		5,117,217	4,187,695

	Notes	2012 RMB'000	2011 RMB'000
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Due to related companies	25	135	163
Trade payables	26	110,773	120,843
Bills payable	27	25,800	–
Accruals and other payables	28	422,437	336,373
Income tax payable		4	864
Deferred grants	29	3,596	3,465
Interest-bearing bank and other borrowings	30	172,000	541,000
Short-term bond payable	31	300,000	–
Total current liabilities		1,034,745	1,002,708
Net current assets		105,420	288,119
TOTAL ASSETS LESS CURRENT LIABILITIES		4,082,472	3,184,987
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	1,679,485	1,067,091
Deferred grants	29	23,474	–
Deferred tax liabilities	33	51,081	56,219
Total non-current liabilities		1,754,040	1,123,310
Total liabilities		2,788,785	2,126,018
Net assets		2,328,432	2,061,677
Equity attributable to owners of the parent			
Issued capital	34	836,671	836,671
Convertible bonds	32	322,436	321,996
Statutory reserve fund	35	167,873	133,655
Retained profits		931,222	732,355
Proposed final dividend	13	63,000	37,000
		2,321,202	2,061,677
Non-controlling interest		7,230	–
Total equity		2,328,432	2,061,677
Total equity and liabilities		5,117,217	4,187,695

Statements of Changes in Equity

Year ended 31 December 2012

Group

	Notes	Issued capital (note 34) RMB'000	Convertible bonds (note 32) RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve fund (note 35) RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
		Attributable to owners of the Company								
At 1 January 2011		836,671	–	–	110,678	612,141	30,000	1,589,490	–	1,589,490
Profit for the year		–	–	–	–	180,508	–	180,508	–	180,508
Other comprehensive income for the year:										
Change in fair value of an available-for-sale investment		–	–	–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	180,508	–	180,508	–	180,508
Transfer to statutory reserve fund	35	–	–	–	22,977	(22,977)	–	–	–	–
2010 final dividend declared		–	–	–	–	–	(30,317)	(30,317)	–	(30,317)
Issue of convertible bonds	32	–	324,366	–	–	–	–	324,366	–	324,366
Convertible bonds issue expenses	32	–	(2,370)	–	–	–	–	(2,370)	–	(2,370)
Transfer from retained profits to proposed 2010 final dividend		–	–	–	–	(317)	317	–	–	–
Proposed 2011 final dividend	13	–	–	–	–	(37,000)	37,000	–	–	–
At 31 December 2011		836,671	321,996	–	133,655	732,355	37,000	2,061,677	–	2,061,677
At 1 January 2012		836,671	321,996	–	133,655	732,355	37,000	2,061,677	–	2,061,677
Profit for the year		–	–	–	–	311,121	–	311,121	(120)	311,001
Other comprehensive income for the year:										
Change in fair value of an available-for-sale investment		–	–	–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	311,121	–	311,121	(120)	311,001
Incorporation of a subsidiary		–	–	–	–	–	–	–	7,350	7,350
Transfer to statutory reserve fund	35	–	–	–	34,218	(34,218)	–	–	–	–
2011 final dividend declared		–	–	–	–	–	(37,000)	(37,000)	–	(37,000)
Convertible bonds interests	32	–	15,036	–	–	(15,036)	–	–	–	–
Payment of convertible bonds interests		–	(14,596)	–	–	–	–	(14,596)	–	(14,596)
Proposed 2012 final dividend	13	–	–	–	–	(63,000)	63,000	–	–	–
At 31 December 2012		836,671	322,436	–	167,873	931,222	63,000	2,321,202	7,230	2,328,432

Company

	Notes	Issued capital (note 34) RMB'000	Convertible bonds (note 32) RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2011		836,671	–	–	2,718	30,000	869,389
Profit for the year		–	–	–	35,576	–	35,576
Other comprehensive income for the year							
Change in fair value of an available-for-sale investment		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	35,576	–	35,576
2010 final dividend declared		–	–	–	–	(30,317)	(30,317)
Issue of convertible bonds	32	–	324,366	–	–	–	324,366
Convertible bonds issue expenses	32	–	(2,370)	–	–	–	(2,370)
Transfer from retained profits to proposed 2010 final dividend		–	–	–	(317)	317	–
Proposed 2011 final dividend	13	–	–	–	(37,000)	37,000	–
At 31 December 2011		836,671	321,996	–	977	37,000	1,196,644
At 1 January 2012		836,671	321,996	–	977	37,000	1,196,644
Profit for the year		–	–	–	77,677	–	77,677
Other comprehensive income for the year							
Change in fair value of an available-for-sale investment		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	77,677	–	77,677
2011 final dividend declared		–	–	–	–	(37,000)	(37,000)
Convertible bonds interests	32	–	15,036	–	(15,036)	–	–
Payment of convertible bonds interests		–	(14,596)	–	–	–	(14,596)
Proposed 2012 final dividend	13	–	–	–	(63,000)	63,000	–
At 31 December 2012		836,671	322,436	–	618	63,000	1,222,725

The difference between the proposed and declared 2010 final dividend of RMB317,000 represented the exchange difference arising from the depreciation of the Renminbi against the Singapore dollar which was realised upon payment and was debited to the retained profits as at 31 December 2011.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		372,021	224,845
Adjustments for:			
Amortisation of prepaid land lease payments	7	3,350	2,166
Amortisation of coal mining right	7	1,568	138
Depreciation of property, plant and equipment	7	178,866	172,100
Loss on disposal of items of property, plant and equipment	7	10,146	2,182
Amortisation of deferred grants	6	(1,095)	(495)
Dividend income from an available-for-sale investment	6	–	(720)
Impairment loss of an available-for-sale investment	7	1,004	16,073
Write-down of inventories to net realisable value	7	5,410	–
Write-off of trade receivables	7	43	–
Interest income	6	(4,463)	(1,596)
Finance costs	8	82,359	78,930
		649,209	493,623
Decrease/(increase) in inventories		155,338	(237,755)
Decrease in trade and bills receivables		13,472	7,633
Increase in prepayments		(22,371)	(39,782)
Increase in deposits and other receivables		(35,741)	(2,923)
Net change in balances with related companies		(1,788)	(560)
Increase in trade and bills payables		15,730	43,191
Increase in accruals and other payables		40,816	24,207
Cash flows generated from operations		814,665	287,634
Government grants received	29	24,700	–
Interest paid	37	(110,118)	(85,767)
Interest received		4,463	1,596
Tax paid		(68,319)	(23,483)
Net cash flows from operating activities		665,391	179,980

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		247	2,808
Purchases of items of property, plant and equipment		(1,189,114)	(479,025)
Purchases of land use rights	16	–	(1,603)
Additions of coal mining right	18	(1,760)	–
Investment in an available-for-sale investment	19	(7,500)	–
Dividend received from an available-for-sale investment	6	–	720
Acquisition of a subsidiary	36	–	(39,064)
Decrease/(increase) in pledged time deposits		(2,900)	8,780
Net cash flows used in investing activities		(1,201,027)	(507,384)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares		(37,000)	(30,317)
Proceeds from issue of convertible bonds	32	–	324,366
Payment of convertible bonds interests		(14,596)	–
Proceeds from issue of a short-term bond	31	300,000	–
Proceeds from loans and borrowings		992,212	1,040,000
Repayments of loans and borrowings		(748,818)	(655,320)
Capital contribution by a non-controlling interest		7,350	–
Net cash flows from financing activities		499,148	678,729
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(36,488)	351,325
Cash and cash equivalents at beginning of year		514,098	162,773
Cash and cash equivalents at end of year		477,610	514,098
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	24	477,610	470,466
Non-pledged time deposits with original maturity of less than three months when acquired	24	–	43,632
Cash and cash equivalents as stated in the consolidated statement of financial position		477,610	514,098

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	20	1,100,000	1,080,000
CURRENT ASSETS			
Available-for-sale investment	19	4,701	5,705
Due from a subsidiary	20	132,938	84,061
Prepayments	23	318	317
Cash and cash equivalents	24	4,587	45,015
Total current assets		142,544	135,098
Total assets		1,242,544	1,215,098
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Accruals		19,819	18,454
Net current assets		122,725	116,644
Net assets		1,222,725	1,196,644
Equity attributable to owners of the parent			
Issued capital	34	836,671	836,671
Convertible bonds	32	322,436	321,996
Retained profits	35	618	977
Proposed final dividend	13	63,000	37,000
Total equity		1,222,725	1,196,644
Total equity and liabilities		1,242,544	1,215,098

1. Corporate Information

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are dually primary-listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at 80 Robinson Road, #02-00, Singapore 068898. The principal place of business of the Group is located at Xinxiang High Technology Development Zone (Xiaoji Town), Henan Province, the People's Republic of China (the "PRC"). The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are disclosed in note 20 to the financial statements.

2.1 Basis of Preparation

These financial statements have 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 Singapore Accounting Standards Council.

These financial statements have been prepared on a historical cost basis, except for a current available-for-sale investment, which has been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values in the tables are rounded to the nearest thousand ("RMB'000") except when otherwise indicated.

2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted the following standards and interpretations mandatory for annual financial periods beginning on or after 1 January 2012.

- Amendments to SFRS 101 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to SFRS 12 *Deferred Tax: Recovery of Underlying Assets*
- Amendments to SFRS 107 *Disclosures – Transfers of Financial Assets*

The adoption of these standards and interpretations did not have material effect on the results and financial position of the financial statements, or their presentation.

2.3 Standards Issued but not yet Effective

The Group has not adopted the following standards and interpretation that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
Revised SFRS 19 *Employee Benefits*	1 January 2013
SFRS 113 *Fair Value Measurement*	1 January 2013
Amendments to SFRS 101 – *Government Loans*	1 January 2013
Amendments to SFRS 107 *Disclosures – Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Improvements to SFRSs 2012	1 January 2013
– Amendment to SFRS 1 *Presentation of Financial Statements*	1 January 2013
– Amendment to SFRS 16 *Property, Plant and Equipment*	1 January 2013
– Amendment to SFRS 32 *Financial Instruments: Presentation*	1 January 2013
– Amendments to SFRS 34 *Interim Financial Reporting*	1 January 2013
– Amendments to SFRS 101 *First-time Adoption of International Financial Reporting Standards*	1 January 2013
INT SFRS 120 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Revised SFRS 27 *Separate Financial Statements*	1 January 2014
Revised SFRS 28 *Investments in Associates and Joint Ventures*	1 January 2014
SFRS 110 *Consolidated Financial Statements*	1 January 2014
SFRS 111 *Joint Arrangements*	1 January 2014
SFRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to SFRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to the transition guidance of SFRS 110 *Consolidated Financial Statements*, SFRS 111 *Joint Arrangements* and SFRS 112 *Disclosures of Interests in Other Entities*	1 January 2014
Amendments to SFRS 110, SFRS 112 and SFRS 27 *Investment Entities*	1 January 2014

Except for the Amendments to SFRS 1 and SFRS 112, the directors expect that the adoption of the other standards and interpretation above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to SFRS 1 and SFRS 112 are described below.

Amendments to SFRS 1 Presentation of Items of Other Comprehensive Income

The Amendments to SFRS 1 *Presentation of Items of Other Comprehensive Income* ("OCI") is effective for financial periods beginning on or after 1 July 2012.

The Amendments to SFRS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

2.3 Standards Issued but not yet Effective (continued)

SFRS 112 Disclosure of Interests in Other Entities

SFRS 112 *Disclosure of Interests in Other Entities* is effective for financial periods beginning on or after 1 January 2014.

SFRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. SFRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact on the financial position and financial performance of the Group when implemented in 2014.

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For items that are traded in active markets, the fair value is determined by reference to quoted market prices. For items with no active market, the fair value is determined using appropriate valuation techniques, such as the discounted cash flow analysis. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset and liability, will be recognised in accordance with SFRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

3. Summary of Significant Accounting Policies (continued)

Business combinations (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in "*Goodwill*" below. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the parent, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

Functional currency

The Group's principal operations are conducted in the PRC. The directors have determined the currency of the primary economic environment in which each entity in the Group operates, i.e., functional currency, to be 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.

Foreign currency transactions

Transactions in foreign currencies are measured in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies 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 end of the reporting period. 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.

3. Summary of Significant Accounting Policies (continued)

Foreign currency transactions (continued)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss 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 other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

For consolidation purpose, the assets and liabilities of foreign operations are translated into RMB at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences is re-attributed to non-controlling interest and is not recognised in profit or loss. For partial disposals of associates or jointly-controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

3. Summary of Significant Accounting Policies (continued)

Joint ventures (continued)

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with SFRS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

(i) has control or joint control over the Company;

(ii) has significant influence over the Company; or

(iii) is a member of the key management personnel of the Group or the Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Summary of Significant Accounting Policies (continued)

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 which includes the cost of replacing part of the property, plant and equipment 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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

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 estimated useful lives and residual values used for this purpose are as follows:

	Years	Residual value
Buildings	15 – 25	3 to 10%
Other fixtures and structures	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 financial year end.

An item of property, plant and equipment including any significant part initially recognised 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 profit or loss 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 and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

3. Summary of Significant Accounting Policies (continued)

Coal mining right

Coal mining right is stated at cost less accumulated amortisation and any impairment losses. The coal mining right is amortised on the straight-line basis over its estimated useful life of 27 years. The useful life of the coal mining right is reviewed annually in accordance with the production plans of the Group and the proven and probable reserves of the mine. The coal mining right is written off to profit or loss if the coal mining property is abandoned.

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 the straight-line basis over the lease terms of 50 years.

The amortisation period and method are reviewed at each financial year end. The amortisation expense is recognised in profit or loss.

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 an annual impairment testing 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 or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

3. Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

For assets excluding goodwill, 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 Group estimates the asset's or cash-generating unit's recoverable amount. 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 increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in "*Foreign currency transactions*" above.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in RMB at the rates prevailing at the date of acquisition.

3. Summary of Significant Accounting Policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

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.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) 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 impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(b) Available-for-sale financial assets

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition 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 had been recognised in other comprehensive income is recognised in profit or loss.

Regular way purchase or sale of a financial asset

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.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

(a) **Financial assets carried at amortised cost**

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets 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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of impaired financial assets 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 profit or loss.

(b) **Financial 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 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.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

(c) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its cost. “Significant” is to be evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

3. Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(a) **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 at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities 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 liabilities are recognised in profit or loss.

The Group has not designed any financial liabilities upon initial recognition at fair value through profit or loss.

(b) **Other financial liabilities**

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Convertible bonds

Convertible bonds issued by the Company are recognised and included in shareholders' equity based on the terms of the contract. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the convertible bonds is not remeasured in subsequent years.

Short-term bond payable

Short-term bond payable is classified under loans and borrowings and recognised initially at fair value. After initial recognition, short-term bond payable is subsequently measured at cost because the effect of discounting would be immaterial as its term is relatively short.

3. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise unpledged bank deposits, cash and bank balances and short-term highly liquid investments that are readily convertible into known amounts of cash, 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, and assets similar in nature to cash, 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 costs on a weighted average basis.

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

Where necessary, allowance is provided for damaged, obsolete and slow-moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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 (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period 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.

3. Summary of Significant Accounting Policies (continued)

Government grants

Government grants are received from the local PRC government on a discretionary basis as determined by the government. They are recognised at their 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 as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. 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 profit or loss 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 capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the asset 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 substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Employee benefits – pension benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of its 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 subsidiaries' employees.

The Company makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme. Contributions to the defined contribution pension scheme 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 operating leases net of any incentives received from lessor are charged to profit or loss on the straight-line basis over the lease terms.

3. Summary of Significant Accounting Policies (continued)

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, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(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 customer, 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 exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(c) Dividend income

Dividend income is recognised when the Group's right to receive payment is established.

(d) Subsidy income

Subsidy income represents subsidies received from the government and is recognised upon cash receipt and when all the relating conditions have been fulfilled.

(e) Amortisation of deferred grants

Deferred grants are amortised and credited to profit or loss by equal annual instalments over the expected useful life of the relevant assets the grants are intended to compensate.

Income taxes

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 at the end of the reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that the tax relates to items recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

Deferred tax

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

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

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

– In respect of taxable 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 and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

– Where the deferred tax asset relating to the deductible temporary difference 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 the accounting profit nor taxable profit or loss; and

– In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 end of the reporting period.

3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

Deferred tax (continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

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, 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 their products and the segment results are reported directly 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 issuance expenses

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.

3. Summary of Significant Accounting Policies (continued)

Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

  (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

  (ii) the amount of the obligation cannot be measured with sufficient reliability.

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

Contingent liabilities and assets are not recognised on the consolidated statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

4. Significant Accounting Estimates and Judgements

The preparation of the Group's consolidated 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 end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

4. Significant Accounting Estimates and Judgements (continued)

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 consolidated financial statements:

Income taxes

The Group has exposure to income taxes in Singapore and 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 recoverable, payable, deferred tax assets and deferred tax liabilities at 31 December 2012 were RMB3,858,000, RMB4,000, RMB4,706,000 and RMB51,081,000, respectively (2011: income tax recoverable, payable and deferred tax liabilities were RMB7,263,000, RMB864,000 and RMB56,219,000, respectively).

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, 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. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was HK$6,950,000 (2011: HK$6,950,000). Further details are given in note 17.

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 lives of the assets. Management estimates the useful lives of the production lines to be within 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 and therefore depreciation charges could be changed in line with revisions to the expected economic useful lives. The carrying amount of the Group's plant and machinery at 31 December 2012 was RMB1,537,039,000 (2011: RMB1,607,262,000).

4. Significant Accounting Estimates and Judgements (continued)

Key sources of estimation uncertainty (continued)

Impairment of an available-for-sale investment

The Group classifies a listed equity investment as available for sale and recognises movements of its fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. At 31 December 2012, impairment loss of RMB1,004,000 has been recognised for this available-for-sale investment (2011: RMB16,073,000). The carrying amount of this available-for-sale investment was RMB4,701,000 (2011: RMB5,705,000).

Impairment of coal mining right

The carrying value of the coal mining right is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy for the impairment of non-financial assets in the section of summary of significant accounting policies. The recoverable amount of the coal mining right, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. At 31 December 2012, no impairment loss has been recognised for the coal mining right. The carrying amount of the coal mining right at 31 December 2012 was RMB41,955,000 (2011: RMB41,763,000).

Coal mine reserve

Engineering estimates of the Group's coal mine reserve are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before an estimated coal mine reserve can be designated as "proved" and "probable". Proved and probable coal mine reserve estimates are updated on regular intervals taking into recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of the proved and probable coal mine reserve also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining amortisation expenses and impairment loss. The capitalised cost of the coal mining right is amortised over the estimated useful life of the related coal mine reserve. The useful life is reviewed annually in accordance with the production of the plants of the Group and the proven and probable reserves of the coal mine. The carrying amount of the coal mining right at 31 December 2012 was RMB41,955,000 (2011: RMB41,763,000).

5. Operating Segment Information

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 a neutral nitrogen-based fertiliser which is suitable for various crops and land. It does 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 pharmaceutical industries.

(ii) Compound fertiliser

Compound fertiliser is a type of round, hard, 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 toxic liquid alcohol. 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 involved in the production of liquid ammonia and ammonia solution. In addition, as detailed in note 36 to the financial statements, in November 2011, the Group had acquired a subsidiary that is engaged in coal mining and the sale of coal. However, in the opinion of the directors, there were only limited operations in this subsidiary after the acquisition by the Group and the assets and liabilities were not material for the purpose of segment reporting. Accordingly, a separate operating segment for the coal mining business carried out by this subsidiary has not been presented.

No operating segments have been aggregated to form the above reportable operating segments.

5. Operating Segment Information (continued)

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs), income taxes and other unallocated items, as explained below, are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Allocation basis

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise other income and gains, other expenses, selling and distribution expenses, general and administrative expenses, finance costs and income tax expense.

Group assets and liabilities cannot be directly attributable to individual segments as it is impracticable to allocate them to the segments. Except for the assets and liabilities of the newly acquired subsidiary in last year which were not material for the purpose of segment reporting, assets of the Group are utilised interchangeably between different segments and there is no reasonable basis to allocate liabilities of the Group between different segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by operating segments.

Geographical information

There is no geographical information presented as the Group mainly operates in Mainland China only.

Information about a major customer

During the years ended 31 December 2012 and 2011, sales to the Group's major customer amounted to RMB244,647,000 (or 6.2% of the total sales) and RMB203,684,000 (or 5.5% of the total sales), respectively.

5. Operating Segment Information (continued)

Segment profit definition

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

Group

Year ended 31 December 2012	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	2,498,534	937,973	495,163	13,914	–	3,945,584
Intersegment sales	318,658	–	–	5,743	(324,401)	–
Total revenue	2,817,192	937,973	495,163	19,657	(324,401)	3,945,584
Segment profit	571,285	127,463	19,466	1,428	–	719,642
Interest income						4,463
Unallocated other income and gains						24,617
Unallocated expenses						(294,342)
Finance costs						(82,359)
Profit before tax						372,021
Income tax expense						(61,020)
Profit for the year						311,001
Other segment information:						
Write-off of trade receivables						43
Write-down of inventories to net realisable value						5,410
Impairment of an available-for-sale investment						1,004
Loss on disposal of items of property, plant and equipment						10,146
Depreciation of property, plant and equipment						178,866
Amortisation of prepaid land lease payments						3,350
Amortisation of coal mining right						1,568

5. Operating Segment Information (continued)

Group

Year ended 31 December 2011	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	2,409,012	849,236	422,480	7,505	–	3,688,233
Intersegment sales	283,255	–	–	12,832	(296,087)	–
Total revenue	2,692,267	849,236	422,480	20,337	(296,087)	3,688,233
Segment profit/(loss)	406,492	127,089	(27,114)	(94)	–	506,373
Interest income						1,596
Unallocated other income and gains						22,390
Unallocated expenses						(226,584)
Finance costs						(78,930)
Profit before tax						224,845
Income tax expense						(44,337)
Profit for the year						180,508
Other segment information:						
Impairment of an available-for-sale investment						16,073
Loss on disposal of items of property, plant and equipment						2,182
Depreciation of property, plant and equipment						172,100
Amortisation of prepaid land lease payments						2,166
Amortisation of coal mining right						138

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.

An analysis of the Group's revenue, other income and gains is as follows:

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	3,945,584	3,688,233

6. Revenue, Other Income and Gains (continued)

	2012 RMB'000	2011 RMB'000
Other income and gains		
Bank interest income	4,463	1,596
Dividend income from an available-for-sale investment	–	720
Net profit from sales of by-products	9,178	5,356
Service fee income from related parties	–	60
Amortisation of deferred grants (note 29)	1,095	495
Subsidy income	12,489	6,667
Penalty income	–	7,798
Others	1,855	1,294
	29,080	23,986

7. Profit Before Tax

The Group's profit before tax is arrived at after charging:

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold #		3,225,942	3,181,860
Depreciation of property, plant and equipment	15	178,866	172,100
Amortisation of prepaid land lease payments	16	3,350	2,166
Amortisation of coal mining right	18	1,568	138
Minimum lease payments under operating leases:			
Land		1,313	1,410
Buildings		480	480
		1,793	1,890
Auditor's remuneration		1,659	1,480
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and bonuses		198,555	139,889
Contributions to defined contribution plans		41,931	21,377
Welfare expenses		14,298	7,262
		254,784	168,528
Impairment of an available-for-sale investment *		1,004	16,073
Unrealised exchange loss, net *		706	1,095
Loss on disposal of items of property, plant and equipment *		10,146	2,182
Write-down of inventories to net realisable value	21	5,410	–
Write-off of trade receivables		43	–

7. Profit Before Tax (continued)

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

Included wages and salaries of RMB32,271,000 (2011: RMB25,624,000) disclosed under employee benefit expenses, depreciation charges of RMB154,523,000 (2011: RMB155,785,000) disclosed under depreciation and write-down of inventories to net realisable value of RMB5,410,000 (2011: Nil) disclosed above.

8. Finance Costs

The Group's finance costs are analysed as follows:

	2012 RMB'000	2011 RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	90,311	79,848
Interest on bank loans, overdrafts and other loans, wholly repayable after five years	19,465	5,687
Interest on government loans	342	232
	110,118	85,767
Less: Interest capitalised (note 37)	(27,759)	(6,837)
	82,359	78,930

9. Directors' Remuneration

Details of directors' remuneration are as follows:

	2012 RMB'000	2011 RMB'000
Fees	800	800
Other emoluments:		
Salaries, allowances and benefits in kind	8,157	4,550
Pension scheme contributions	73	66
	8,230	4,616
	9,030	5,416

9. Directors' Remuneration (continued)

(a) *Independent non-executive directors*

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

	2012 RMB'000	2011 RMB'000
Ong Kian Guan	300	300
Li Shengxiao	250	250
Ong Wei Jin	250	250
	800	800

There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2012 (2011: Nil).

(b) *Executive directors and a non-executive director*

Year ended 31 December 2012	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses* RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Liu Xingxu	–	875	2,356	25	3,256
Yan Yunhua	–	696	1,767	24	2,487
Li Buwen	–	696	1,767	24	2,487
	–	2,267	5,890	73	8,230
Non-executive director:					
Lian Jie	–	–	–	–	–
	–	2,267	5,890	73	8,230

Year ended 31 December 2011	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses* RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Liu Xingxu	–	877	911	22	1,810
Yan Yunhua	–	698	683	22	1,403
Li Buwen	–	698	683	22	1,403
	–	2,273	2,277	66	4,616
Non-executive director:					
Lian Jie	–	–	–	–	–
	–	2,273	2,277	66	4,616

* Performance related bonuses are based on the profit before tax of the Group for each financial year.

9. Directors' Remuneration (continued)

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2012 (2011: Nil).

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. Five Highest Paid Employees

The five highest paid employees in the Group for the year included three (2011: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2011: two) non-director, highest paid employees for the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	1,038	1,280
Performance-related bonuses	420	145
Pension scheme contributions	35	45
	1,493	1,470

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

	2012	2011
Nil to RMB500,000	–	–
RMB500,001 to RMB1,000,000	2	2
	2	2

During the year, no remuneration was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Income Tax

The Company is incorporated in Singapore and is subject to income tax at the rate of 17% (2011: 17%) for the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The Company's subsidiaries in Mainland China are subject to income tax at the rate of 25% (2011: 25%). Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", one of the subsidiaries is entitled to full exemption from income tax for the first two profitable years and a 50% reduction in income tax for the following three years. This 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, this subsidiary was exempted from income tax during the years ended 31 December 2007 and 2008, and had a 50% tax exemption for the three years ended 31 December 2009, 2010 and 2011 (i.e., 12.5%). During the current year, this subsidiary was awarded the New/High Tech Enterprise Award as recognition of its innovation and use of state-of-the-art equipment. This award brought this subsidiary a tax concession of a lower income tax rate (i.e., 15%) for the year ended 31 December 2012 and for the year ending 31 December 2013.

The major components of income tax expense for the financial years ended 31 December 2012 and 2011 are:

Group

	2012 RMB'000	2011 RMB'000
Current – PRC		
Charge for the year	64,941	32,621
Underprovision in respect of prior years	1,145	358
Deferred (note 33)	(5,066)	11,358
Total tax charge for the year	61,020	44,337

11. Income Tax (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge for the year at the effective tax rate is as follows:

	2012 RMB'000	2011 RMB'000
Profit before tax	372,021	224,845
Tax at statutory tax rates	94,291	59,455
Expenses not deductible for tax	8,427	5,978
Effect of withholding tax at 5% on the distributable profits of the PRC subsidiary	–	11,388
Effect of a tax holiday	(40,312)	(32,655)
Adjustments in respect of current tax of previous periods	1,145	358
Recognition of deductible temporary differences previously not recognised	(2,618)	–
Others	87	(187)
Tax charge for the year at the effective tax rate	61,020	44,337

12. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB13,545,000 (2011: profit of RMB35,576,000) which has been dealt with in the financial statements of the Company.

13. Dividend

	2012 RMB'000	2011 RMB'000
Proposed final dividend – RMB6.30 cents (2011: RMB3.70 cents) per ordinary share	63,000	37,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic and diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued) of 1,176,000,000 (2011: 1,005,304,000), as adjusted to reflect the convertible bonds issued in 2011.

The calculations of basic and diluted earnings per share are based on the following data:

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	311,121	180,508

	2012 Number of shares	2011 Number of shares
Shares		
Weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued during the year) for the purpose of calculating basic and diluted earnings per share	1,176,000,000	1,005,304,000

15. Property, Plant and Equipment

Group

31 December 2012

	Buildings RMB'000	Other fixtures and structures RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 31 December 2011 and 1 January 2012	277,876	386,757	2,182,184	75,688	21,750	282,690	3,226,945
Additions	2,303	18,231	31,954	6,215	5,986	692,628	757,317
Transfers	7,853	1,722	43,350	3,381	1,109	(57,415)	–
Transfers to prepaid land lease payments (note 16)	–	–	–	–	–	(91,201)	(91,201)
Disposals	–	(618)	(12,847)	(147)	(1,286)	–	(14,898)
At 31 December 2012	288,032	406,092	2,244,641	85,137	27,559	826,702	3,878,163
Accumulated depreciation:							
At 31 December 2011 and 1 January 2012	29,099	40,389	574,922	31,711	8,656	–	684,777
Depreciation charged for the year	12,291	13,718	136,163	12,774	3,920	–	178,866
Disposals	–	(144)	(3,483)	(116)	(762)	–	(4,505)
At 31 December 2012	41,390	53,963	707,602	44,369	11,814	–	859,138
Net carrying amount:							
At 31 December 2012	246,642	352,129	1,537,039	40,768	15,745	826,702	3,019,025

15. Property, Plant and Equipment (continued)

Group

31 December 2011

	Buildings RMB'000	Other fixtures and structures RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2011	231,858	260,712	2,051,270	76,804	15,456	297,163	2,933,263
Additions	9,602	5,477	22,451	4,166	5,153	216,671	263,520
Acquisition of a subsidiary (note 36)	2,474	23,050	14,153	228	1,288	–	41,193
Transfers	34,124	98,158	104,068	(5,371)	165	(231,144)	–
Disposals	(182)	(640)	(9,758)	(139)	(312)	–	(11,031)
At 31 December 2011	277,876	386,757	2,182,184	75,688	21,750	282,690	3,226,945
Accumulated depreciation:							
At 1 January 2011	19,139	28,119	437,544	28,195	5,721	–	518,718
Depreciation charged for the year	9,989	12,392	142,919	3,616	3,184	–	172,100
Disposals	(29)	(122)	(5,541)	(100)	(249)	–	(6,041)
At 31 December 2011	29,099	40,389	574,922	31,711	8,656	–	684,777
Net carrying amount:							
At 31 December 2011	248,777	346,368	1,607,262	43,977	13,094	282,690	2,542,168

The Group's buildings with an aggregate net carrying amount of RMB246,642,000 (2011: RMB248,777,000) are situated in Mainland China.

16. Prepaid Land Lease Payments

Group

	Notes	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January		91,282	91,845
Additions		–	1,603
Transfer from construction in progress	15	91,201	–
Amortisation during the year	7	(3,350)	(2,166)
Carrying amount at 31 December		179,133	91,282
Current portion included in prepayments	23	(3,843)	(2,117)
Non-current portion		175,290	89,165

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. The leasehold land has a remaining tenure from 42 to 49 years (2011: from 43 to 47 years).

17. Goodwill

Group

	RMB'000
Cost at 1 January 2011	–
Acquisition of a subsidiary (note 36)	6,950
Cost and net carrying amount at 31 December 2011, 1 January 2012 and 31 December 2012	6,950
At 31 December 2012 and 31 December 2011:	
Cost	6,950
Accumulated impairment	–
Net carrying amount	6,950

17. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through a business combination amounting to RMB6,950,000 (2011: RMB6,950,000) has been allocated to the coal mining cash-generating unit for impairment testing.

The recoverable amount of the coal mining cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by management covering a 20-year period. The cash flow projections are discounted using the discount rate of 9%.

Assumptions used in the value-in-use calculation

The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

(i) **Budgeted gross margin**

The basis used to determine the value assigned to the future gross margin is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

(ii) **Raw materials price inflation**

The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year.

(iii) **Commodity price inflation**

The basis used to determine the value assigned to commodity price inflation is the expectation of future changes in the market.

(iv) **Discount rate**

The discount rate used is before tax and reflects specific risks relating to the relevant unit.

18. Coal Mining Right

Group

	RMB'000
31 December 2012	
Cost at 1 January 2012, net of accumulated amortisation	41,763
Additions	1,760
Amortisation provided during the year (note 7)	(1,568)
At 31 December 2012	41,955
At 31 December 2012:	
Cost	43,661
Accumulated amortisation	(1,706)
Net carrying amount	41,955
31 December 2011	
Cost at 1 January 2011, net of accumulated amortisation	–
Acquisition of a subsidiary (note 36)	41,901
Amortisation provided during the year (note 7)	(138)
At 31 December 2011	41,763
At 31 December 2011:	
Cost	41,901
Accumulated amortisation	(138)
Net carrying amount	41,763

19. Available-for-Sale Investments

	Group 2012 RMB'000	2011 RMB'000
NON-CURRENT		
Unquoted equity investment, at cost:		
PRC	7,500	–
CURRENT		
Listed equity investment, at fair value:		
Singapore	4,701	5,705

	Company 2012 RMB'000	2011 RMB'000
CURRENT		
Listed equity investment, at fair value:		
Singapore	4,701	5,705

The above investments in equity securities were designated as available-for-sale financial assets and have no fixed maturity or coupon rate.

During the year, the gross loss in respect of the available-for-sale investments recognised in other comprehensive income amounted to RMB1,004,000 (2011: RMB16,073,000). There was a significant decline in the market value of the listed equity investment during the year. The directors consider that such a decline indicates that the listed equity investment has been impaired and an impairment loss of RMB1,004,000 (2011: RMB16,073,000), which included a reclassification from other comprehensive income of RMB1,004,000 (2011: RMB16,073,000), has been recognised in profit or loss for the year. The listed equity investment was classified as a current asset because it is the intention of the directors of the Company to dispose of the investment in the forthcoming year. The market value of the listed equity investment at the date of approval of these financial statements was approximately RMB5,907,000.

During the year ended 31 December 2012, the Group made an investment of RMB7,500,000 in return for 15% of the unlisted registered capital of 瑪納斯縣碧源供水有限責任公司 ("Biyuan"). Biyuan was established to provide water supply and water treatment services and is currently in its startup phase. As at 31 December 2012, the investment in Biyuan with a carrying amount of RMB7,500,000 (2011: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

20. Investments in Subsidiaries

	Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	1,100,000	1,080,000

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Henan Xinlianxin Fertiliser Co., Ltd.* #	PRC/ Mainland China	RMB1,100,000,000 (2011: RMB1,080,000,000)	100% (2011: 100%)	–	Manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution
Henan Shoulashou Fertiliser Co., Ltd.#@	PRC/ Mainland China	RMB1,000,000	–	100% (2011: 100%)	Dormant
Xinjiang Xinlianxin Energy Chemical Co., Ltd.#@	PRC/ Mainland China	RMB350,000,000 (2011: RMB130,000,000)	–	100% (2011: 100%)	Investment holding
瑪納斯天利煤業有限責任公司 ("Tianli")#@	PRC/ Mainland China	RMB45,000,000	–	100% (2011: 100%)	Coal mining and sales of coal
河南農心肥業有限公司 ("Nongxin")#@	PRC/ Mainland China	RMB15,000,000	–	51% (2011: Nil)	Manufacturing and trading of compound fertiliser and related products

* The subsidiary is registered as a wholly-foreign-owned enterprise under PRC law.

@ These subsidiaries are established in the PRC and registered under PRC law.

The statutory audited financial statements of the subsidiaries for the year ended 31 December 2012 were not audited by Ernst & Young LLP, Singapore or another member firm of the Ernst & Young global network.

20. Investments in Subsidiaries (continued)

On 19 March 2012, the Group entered into an agreement with Sinoagric Chain Co., Ltd. (華農農資連鎖股份有限公司) to establish a joint venture, namely 河南農心肥業有限公司 ("Nongxin") for a period of fifty years, to manufacture and sell compound fertiliser and related products. Further details of this establishment are included in the Company's announcement dated 26 March 2012.

In 2011, the Group acquired 瑪納斯天利煤業有限責任公司 from an independent third party. Further details of this acquisition are included in note 36 to the financial statements.

21. Inventories

	Group	
	2012	2011
	RMB'000	RMB'000
Statement of financial position:		
Raw materials	243,444	363,830
Parts and spares	13,518	13,941
Work-in-progress	5,816	6,077
Finished goods	169,588	209,266
	432,366	593,114
Profit or loss:		
Inventories recognised as an expense in cost of sales	3,033,738	3,000,451
Write-down of inventories to net realisable value (note 7)	5,410	–
	3,039,148	3,000,451

22. Trade and Bills Receivables

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	15,520	28,725
Bills receivable	1,740	2,050

Trade receivables are non-interest-bearing and are normally settled on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values on initial recognition. The Group's bills receivable are non-interest-bearing and are normally settled on terms of 90 to 180 days. Trade and bills receivables are denominated in RMB.

22. Trade and Bills Receivables (continued)

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. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2012 RMB'000	2011 RMB'000
Within 1 month	13,876	20,256
1 to 3 months	830	1,842
3 to 6 months	469	6,625
6 to 12 months	345	2
	15,520	28,725

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	14,706	22,098
Less than 3 months past due	469	–
More than 3 months past due	345	6,627
	15,520	28,725

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.

22. Trade and Bills Receivables (continued)

At 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills"), to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement") with a carrying amount in aggregate of RMB175,510,000. The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2012, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

23. Prepayments, Deposits and Other Receivables

		Group	
		2012	2011
	Note	RMB'000	RMB'000
NON-CURRENT			
Prepayments for purchases of items of plant and equipment		721,626	216,822
CURRENT			
Prepayments			
Advanced deposits to suppliers		129,842	113,591
Current portion of prepaid land lease payments	16	3,843	2,117
Other prepayments		6,945	825
		140,630	116,533
Deposits and other receivables			
VAT recoverable		38,223	2,588
Others		10,857	10,751
		49,080	13,339
Total prepayments, deposits and other receivables		189,710	129,872

23. Prepayments, Deposits and Other Receivables (continued)

	Company	
	2012	2011
	RMB'000	RMB'000
Prepayments	318	317

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.

24. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Time deposits	12,900	53,632	–	43,632
Less:				
Pledged time deposits for bills payable (note 27)	(12,900)	(10,000)	–	–
	–	43,632	–	43,632
Cash at banks and on hand	477,610	470,466	4,587	1,383
Cash and cash equivalents	477,610	514,098	4,587	45,015

At 31 December 2012, the cash and bank balances of the Group denominated in RMB amounted to RMB424,567,000 (2011: RMB497,273,000). 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 six 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.

25. Due from/to Related Companies

Balances with related companies are unsecured, interest-free and repayable on demand, except for an amount due to Henan Xinlianxin Chemicals Group Co., Ltd. ("Henan Chemicals") as at 31 December 2011 which bore interest at 5.13% per annum.

Particulars of the amount due from a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	31 December 2012 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2012 RMB'000
Xinxiang Xinlianxin Chemical Equipment Co., Ltd.	1,760	8,183	–

Related companies comprise Henan Chemicals and its subsidiaries. The Company and Henan Chemicals have common shareholders and the Company's executive directors and executive officers have certain equity interests in Henan Chemicals.

26. Trade Payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Within 1 month	44,495	37,048
1 to 3 months	55,750	77,608
3 to 6 months	4,948	3,288
6 to 12 months	1,941	2,596
Over 12 months	3,639	303
	110,773	120,843

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. Trade payables are denominated in RMB.

27. Bills Payable

The Group's bills payable had an average maturity period of 90 to 180 days and were interest-free. Bills payable were denominated in RMB and were secured by time deposits of RMB12,900,000 (2011: RMB10,000,000) (note 24).

28. Accruals and Other Payables

	Group	
	2012	2011
	RMB'000	RMB'000
Accruals		
Accrued expenses	70,404	45,238
Accruals for construction costs and purchases of items of property, plant and equipment	92,646	47,398
	163,050	92,636
Other payables		
Advanced purchase deposits from customers	180,301	145,411
VAT and other operating tax payables	1,562	4,483
Tender deposits	50,863	33,077
Payable to the former owner of a newly acquired subsidiary	–	39,488
Others	26,661	21,278
	259,387	243,737
	422,437	336,373

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

29. Deferred Grants

	Group	
	2012	2011
	RMB'000	RMB'000
Cost:		
At beginning of the year	6,000	6,000
Received during the year	24,700	–
At end of year	30,700	6,000
Accumulated amortisation:		
At beginning of the year	2,535	2,040
Amortisation during the year	1,095	495
At end of year	3,630	2,535
Net carrying amount:		
Current	3,596	3,465
Non-current	23,474	–
	27,070	3,465

As at 31 December 2012 and 2011, deferred grants related to government grants given to the Group for the construction of production plants and installation and building of machinery to implement energy-saving production methods and to reduce production cost. They are amortised over the useful life of the related property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants. During the year, government grants of aggregately RMB24,700,000 (2011: Nil) were given to the Group.

30. Interest-Bearing Bank and Other Borrowings

Group

	2012			2011		
	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000
CURRENT						
Bank loans						
– secured (note (a))	–	–	–	6.45%	2012	90,000
– unsecured	5.6% to 6.8%	2013	172,000	5.4% to 7.1%	2012	451,000
			172,000			541,000
NON-CURRENT						
Bank loans						
– unsecured	1.81% to 7.32%	2014 to 2018	1,672,212	5.04% to 7.32%	2013 to 2016	1,058,000
Loan from the government						
– unsecured	Floating rate at 0.3% above the market prime lending rate	2020	7,273	Floating rate at 0.3% above the market prime lending rate	2020	9,091
			1,679,485			1,067,091
			1,851,485			1,608,091

	Group	
	2012	2011
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	172,000	541,000
In the second year	965,212	628,000
In the third to fifth years, inclusive	247,000	200,000
Beyond five years	460,000	230,000
	1,844,212	1,599,000
Other borrowings repayable:		
Beyond five years	7,273	9,091
	1,851,485	1,608,091

30. Interest-Bearing Bank and Other Borrowings (continued)

Notes:

(a) Certain bank loans of the Group had been guaranteed by independent third parties as at 31 December 2011.

(b) Except for an unsecured bank loan amounting to RMB268,212,000 (2011: Nil) which is denominated in United States dollars ("USD"), all borrowings are in Renminbi.

31. Short-Term Bond Payable

On 10 May 2012, Henan Xinlianxin Fertiliser Co., Ltd., a subsidiary of the Company, issued a short-term unsecured corporate bond of RMB300,000,000 to a number of financial institutions with China Minsheng Banking Corp., Ltd. as the principal underwriter, with a maturity period of 1 year and a fixed interest rate of 5.7% per annum. The principal and the interest will be repaid at the end of the term on 11 May 2013.

32. Convertible Bonds

On 21 December 2011, the Company issued RMB denominated convertible bonds with a nominal value of RMB324,366,000. There was no movement during the year. The direct transaction costs attributable to the convertible bonds amounted to RMB2,370,000. The bonds are convertible into ordinary shares of the Company at the option of the bondholder at the initial conversion price of approximately RMB1.84 per share anytime after the issuance of the convertible bonds. While the convertible bonds bear interest at 4.5% per annum, the Company may, at its sole discretion, elect to defer the interest pursuant to the terms of the convertible bonds.

Unless previously redeemed, purchased and cancelled or converted, all the convertible bonds outstanding shall be converted into ordinary shares of the Company on the fifth anniversary of the date of issue. The convertible bonds are redeemable at the option of the holder of convertible bonds only upon the occurrence of a winding-up (any step taken by any person at the sole election of the Company (not under direction of any third party, including judicial or regulatory) with a view to the voluntary winding-up or dissolution or administration of any group companies (including but not limited to a members' voluntary solvent winding-up), or any group companies cease or threaten to cease to carry on all or substantially all of its business or operations) at a redemption price which shall be equivalent to the aggregate of the outstanding principal amount of the convertible bonds together with a redemption premium of 8.0% per annum on such outstanding principal amount, up to the date fixed for redemption.

In the opinion of the directors, the Company is able to defer or control the redemption of the principal, the payment of bond interests and other cash payments to the bondholder. Accordingly, the convertible bonds are classified as equity instruments.

During the year, bond interest of RMB15,036,000 (2011: Nil) was accrued and of which RMB14,596,000 (2011: Nil) was paid to the bondholder.

33. Deferred Tax

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2011	–	35,071	35,071
Acquisition of a subsidiary (note 36)	9,790	–	9,790
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(30)	11,388	11,358
At 31 December 2011 and at 1 January 2012	9,760	46,459	56,219
Payment during the year	–	(4,778)	(4,778)
Deferred tax credited to profit or loss during the year (note 11)	(360)	–	(360)
At 31 December 2012	9,400	41,681	51,081

Deferred tax assets

	Deductible temporary differences RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Deferred tax credited to profit or loss during the year (note 11)	4,706
At 31 December 2012	4,706

33. Deferred Tax (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from 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 Mainland China and the jurisdiction of the foreign investors. As at 31 December 2011, the Group made provision for deferred tax liabilities on withholding tax at 5% of the earnings of all its PRC subsidiaries since 1 January 2008. For the year ended 31 December 2012, deferred tax liabilities were provided based on the forecasted dividend payout because the directors believe that the PRC subsidiaries would not pay out all their earnings as dividends and the new basis of provision could more accurately reflect the actual deferred tax liabilities of the Group arising from distribution of dividends by its PRC subsidiaries. This constituted a change in accounting estimate and has been applied prospectively and has resulted in a reduction in the deferred tax liabilities of approximately RMB17,109,000 had deferred tax liabilities been provided for 100% of the retained earnings of the PRC subsidiaries.

Deferred tax liabilities arising from fair value adjustments arising from acquisition of a subsidiary represented the deferred tax liabilities on fair value uplift of the coal mining right owned by the subsidiary, 瑪納斯天利煤業有限責任公司 (“Tianli”), arising from acquisition in 2011. Details of the acquisition of Tianli are set out in note 36 to the financial statements.

34. Share Capital

	Number of ordinary shares		Amount	
	2012	2011	2012	2011
			RMB’000	RMB’000
Issued and fully paid	1,000,000,000	1,000,000,000	836,671*	836,671*

* Equivalent to Singapore dollars (“SGD”) 165,677,000.

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. The ordinary shares have no par value.

35. Reserves

The amounts of the Group’s and the Company’s reserves and the movements therein for the years ended 31 December 2012 and 2011 are presented in the statements of changes in equity.

In accordance with the Wholly Foreign Owned Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries are required to make appropriations to the Statutory Reserve Fund (the “SRF”). At least 10% of the 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 subsidiaries’ 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 subsidiaries.

36. Business Combination

On 22 November 2011, the Group had acquired a 100% interest in Tianli from an independent third party. Tianli is engaged in coal mining and the sale of coal. The acquisition was made as part of the Group's strategy to obtain the necessary upstream experience in managing coal mines. The purchase consideration for the acquisition was in the form of cash, with RMB40,000,000 paid at the acquisition date. The fair values of the identifiable assets and liabilities of Tianli as at the date of acquisition were determined by 新疆宏昌礦業權評估咨詢有限責任公司 and 河南豫財資產評估有限公司, independent professionally qualified valuers.

The fair values of the identifiable assets and liabilities of Tianli as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	41,193
Coal mining right	18	41,901
Cash and bank balances		936
Trade and bills receivables		6,121
Prepayments		2,662
Other receivables		2,955
Inventories		1,437
Accruals and other payables		(54,365)
Deferred tax liabilities	33	(9,790)
Total identifiable net assets at fair value		33,050
Goodwill on acquisition	17	6,950
Satisfied by cash		40,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(40,000)
Cash and bank balances acquired	936
Net outflow of cash and cash equivalents included in cash flows from investing activities	39,064

Since the acquisition, Tianli contributed a loss of RMB1,060,000 to the Group's consolidated profit for the year ended 31 December 2011. Had the acquisition taken place at the beginning of 2011, the revenue of the Group and the profit for that year would have been RMB3,719,433,000 and RMB190,214,000, respectively.

37. Note to the Consolidated Statement of Cash Flows

Major non-cash transaction – interest capitalisation

During the year, the Group capitalised interest expenses of RMB27,759,000 (2011: RMB6,837,000) to property, plant and equipment (note 8).

38. Contingent Liabilities

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

39. Operating Lease Arrangements

At the end of the reporting period, the Group had outstanding operating lease agreements for buildings, and plant and machinery in Mainland China. Future minimum rentals payable of the Group under non-cancellable operating leases at the end of the reporting period are as follows:

	2012 RMB'000	2011 RMB'000
Within one year	19,420	1,082
In the second to fifth years, inclusive	297,956	3,488
After five years	32,105	27,416
	349,481	31,986

The Company had no operating lease arrangements as at 31 December 2012 and 2011.

40. Commitments

In addition to the operating lease commitments detailed in note 39 above, the Group had the following capital and other commitments at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
Capital commitments		
Contracted, but not provided for:		
Buildings	223,396	179,785
Plant and machinery	978,518	128,593
	1,201,914	308,378
Authorised, but not contracted for:		
Plant and machinery	2,689,163	2,000,622
	3,891,077	2,309,000
Other commitments		
Purchases of raw materials	2,078	5,954

The Company had no material commitments as at 31 December 2012 and 2011.

41. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2012 RMB'000	2011 RMB'000
Sales of electricity, water and steam to:*	(i)		
– Henan Shenzhou Heavy Sealing Co., Ltd.#		1,200	1,004
– Xinxiang Xinlianxin Gas Products Co., Ltd.#		8,976	9,032
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#		48	12
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		205	298
– Xinxiang Yuyuan Chemical Co., Ltd.#		604	676
– Xinxiang Xinlianxin Hotel Co., Ltd.#		219	159
Service fee income for provision of calibration and testing services to:	(ii)		
– Henan Shenzhou Heavy Sealing Co., Ltd.#		42	24
– Xinxiang Xinlianxin Gas Products Co., Ltd.#		7	12
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		23	5
– Xinxiang Yuyuan Chemical Co., Ltd.#		45	18
– Xinxiang Xinlianxin Hotel Co., Ltd.#		1	1
Purchases of raw materials and consumables from:	(iii)		
– Xinxiang Xinlianxin Gas Products Co., Ltd.#		186	265
Purchases of items of property, plant and equipment from:	(iv)		
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		11,493	2,447
– Henan Shenzhou Heavy Sealing Co., Ltd.#		2	–
Service fee expenses for provision of lifting services from:	(v)		
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#		3,715	2,507
Operating lease expenses to:	(vi)		
– Henan Chemicals		480	480
Catering and accommodation expenses to:	(vii)		
– Henan Shenzhou Heavy Sealing Co., Ltd.#		–	1
– Xinxiang Xinlianxin Hotel Co., Ltd.#		4,459	3,232
– Xinxiang City Eight Mile Gully Resort Co., Ltd.#		662	591
Interest expense to:	(viii)		
– Henan Chemicals		–	439

41. Related Party Transactions (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

These companies are subsidiaries of Henan Chemicals, which has common shareholders with the Company. The Company's executive directors and executive officers have certain equity interests in Henan Chemicals. Xinxiang Xinlianxin Gas Products Co., Ltd. ceased to be a related party of the Group since Henan Chemicals disposed of it in October 2012, therefore, the table above only includes transactions with Xinxiang Xinlianxin Gas Products Co., Ltd. before the disposal.

* The amounts represent gross sales of by-products. Profit generated from such sales amounting to RMB3,175,000 (2011: RMB1,601,000) is included in net profit from sales of by-products (note 6).

Notes:

(i) The sale of electricity was made according to the unit cost of electricity announced by the Henan Province Development and Reform Committee (*河南省發展和改革委員會*). The sales of water and steam were made according to a mark-up of approximately 41% above cost.

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

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

(iv) The purchases of items of property, plant and equipment were charged based on the published prices and conditions offered to third parties by the related party.

(v) The service fee expenses for the provision of lifting services were charged based on mutually agreed terms with reference to the actual costs incurred.

(vi) The operating lease expenses for the year were charged at a fixed monthly amount of RMB40,000 (2011: RMB40,000).

(vii) The catering and accommodation expenses were charged based on mutually agreed terms with reference to the actual costs incurred.

(viii) The interest expense was charged based on a fixed interest rate of 5.13% per annum on the balance due to the related company for the year ended 31 December 2011.

Except for the interest expense paid to Henan Chemicals for the year ended 31 December 2011, the related party transactions above constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

41. Related Party Transactions (continued)

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

	2012 RMB'000	2011 RMB'000
Directors' fees	800	800
Salaries and bonuses	11,750	6,544
Contributions to defined contribution plans	207	151
	12,757	7,495
Comprise amounts paid to:		
– Directors of the Company	9,030	5,416
– Other key management personnel	3,727	2,079
	12,757	7,495

Further details of the directors' remuneration are included in note 9 to these financial statements.

42. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

		2012			2011		
	Notes	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	19	–	12,201	12,201	–	5,705	5,705
Due from a related company	25	1,760	–	1,760	–	–	–
Trade receivables	22	15,520	–	15,520	28,725	–	28,725
Bills receivable	22	1,740	–	1,740	2,050	–	2,050
Deposits and other receivables	23	49,080	–	49,080	13,339	–	13,339
Pledged deposits	24	12,900	–	12,900	10,000	–	10,000
Cash and cash equivalents	24	477,610	–	477,610	514,098	–	514,098
		558,610	12,201	570,811	568,212	5,705	573,917

42. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial liabilities

		Financial liabilities at amortised cost	
		2012	2011
	Notes	RMB'000	RMB'000
Due to related companies	25	135	163
Trade payables	26	110,773	120,843
Bills payable	27	25,800	–
Financial liabilities included in accruals and other payables	28	242,136	336,373
Interest-bearing bank and other borrowings	30	1,851,485	1,608,091
Short-term bond payable	31	300,000	–
		2,530,329	2,065,470

Company

Financial assets

		Loans and receivables	
		2012	2011
	Note	RMB'000	RMB'000
Due from a subsidiary		132,938	84,061
Cash and cash equivalents	24	4,587	45,015
		137,525	129,076

		Available-for-sale financial assets	
		2012	2011
	Note	RMB'000	RMB'000
Available-for-sale investment	19	4,701	5,705

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Accruals	19,819	18,454

43. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Due from a related company	1,760	–	1,760	–
Trade receivables	15,520	28,725	15,520	28,725
Bills receivable	1,740	2,050	1,740	2,050
Deposits and other receivables	49,080	13,339	49,080	13,339
Pledged deposits	12,900	10,000	12,900	10,000
Cash and cash equivalents	477,610	514,098	477,610	514,098
Available-for-sale investment, at fair value	4,701	5,705	4,701	5,705
	563,311	573,917	563,311	573,917
Financial liabilities				
Due to related companies	135	163	135	163
Trade payables	110,773	120,843	110,773	120,843
Bills payable	25,800	–	25,800	–
Financial liabilities included in accruals and other payables	242,136	336,373	242,136	336,373
Interest-bearing bank and other borrowings	1,851,485	1,608,091	1,851,485	1,608,091
Short-term bond payable	300,000	–	300,000	–
	2,530,329	2,065,470	2,530,329	2,065,470

43. Fair Value and Fair Value Hierarchy (continued)

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows: (continued)

Company

	Carrying amounts		Fair values	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Due from a subsidiary	132,938	84,061	132,938	84,061
Cash and cash equivalents	4,587	45,015	4,587	45,015
Available-for-sale investment	4,701	5,705	4,701	5,705
	142,226	134,781	142,226	134,781
Financial liabilities				
Accruals	19,819	18,454	19,819	18,454

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, deposits and other receivables, balances with related companies, financial liabilities included in accruals and other payables, and short-term bond payable approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the interest-bearing bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair value of the listed equity investment is determined by direct reference to its bid price quotation in an active market at the end of the reporting period.

43. Fair Value and Fair Value Hierarchy (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Asset measured at fair value:

Group and Company

As at 31 December 2012

	Level 1 RMB'000
Available-for-sale investment	4,701

As at 31 December 2011

	Level 1 RMB'000
Available-for-sale investment	5,705

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2011: Nil).

Liability measured at fair value:

The Group and the Company had no financial liabilities measured at fair value as at 31 December 2012 and 2011.

44. 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 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 receivable 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 and the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Credit risk concentration profile

The Group assesses 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 end of the reporting period is as follows:

	2012 RMB'000	% of total	2011 RMB'000	% of total
Urea	13	–	–	–
Compound fertiliser	15,507	100	27,660	96
Others	–	–	1,065	4
Total	15,520	100	28,725	100

At 31 December 2012, none of the Group's trade receivables (2011: Nil) were due from its top 10 customers.

44. Financial Risk Management Objectives and Policies (continued)

(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 and the Company's financial liabilities at the end of the reporting period based on the contractual undiscounted repayment obligations.

	Within 1 year or on demand RMB'000	1 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
31 December 2012					
Due to related companies	135	–	–	–	135
Trade payables	110,773	–	–	–	110,773
Bills payable	25,800	–	–	–	25,800
Financial liabilities included in accruals and other payables	242,136	–	–	–	242,136
Interest-bearing bank and other borrowings	179,054	1,046,828	320,455	643,530	2,189,867
Short-term bond payable	317,100	–	–	–	317,100
	874,998	1,046,828	320,455	643,530	2,885,811
31 December 2011					
Due to related companies	163	–	–	–	163
Trade payables	120,540	303	–	–	120,843
Accruals and other payables	336,373	–	–	–	336,373
Interest-bearing bank and other borrowings	563,206	873,753	67,190	334,926	1,839,075
	1,020,282	874,056	67,190	334,926	2,296,454
Company					
31 December 2012					
Accruals	19,819	–	–	–	19,819
31 December 2011					
Accruals	18,454	–	–	–	18,454

44. Financial Risk Management Objectives and Policies (continued)

(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 exposure to interest rate risk arises primarily from its loans and borrowings.

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 the carrying amounts of cash and short-term deposits based on their notional amounts, which reasonably approximate to their fair values because these are mostly short-term in nature or are repriced frequently. For interest-bearing bank and other 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	2012 RMB'000	2011 RMB'000
Interest expense			
RMB	10	(1,252)	(1,206)
USD	10	(228)	–
Interest income			
RMB	10	361	435
SGD	10	–	1
USD	50	277	112

44. Financial Risk Management Objectives and Policies (continued)

(d) *Foreign currency risk*

The Group holds cash and cash equivalents and interest-bearing bank borrowing denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency net assets/(liabilities) (mainly in SGD, USD and Hong Kong dollars ("HKD")) are as follows:

	2012 RMB'000	2011 RMB'000
SGD	392	962
USD	(202,984)	25,539
HKD	322	324
	(202,270)	26,825

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

		2012 RMB'000	2011 RMB'000
SGD	– strengthened 5% (2011: 5%)	20	48
	– weakened 5% (2011: 5%)	(20)	(48)
USD	– strengthened 2% (2011: 2%)	(4,060)	511
	– weakened 2% (2011: 2%)	4,060	(511)
HKD	– strengthened 1% (2011: 1%)	3	3
	– weakened 1% (2011: 1%)	(3)	(3)

45. 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 years ended 31 December 2012 and 2011.

As disclosed in note 35, subsidiaries of the Group are 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 subsidiaries for the years ended 31 December 2012 and 2011.

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%.

	2012 RMB'000	2011 RMB'000
Due to related companies	135	163
Trade payables	110,773	120,843
Bills payable	25,800	–
Accruals and other payables	422,437	336,373
Interest-bearing bank and other borrowings	1,851,485	1,608,091
Short-term bond payable	300,000	–
Less: Cash and cash equivalents	(477,610)	(514,098)
Less: Pledged deposits	(12,900)	(10,000)
Net debt	2,220,120	1,541,372
Equity attributable to owners of the parent	2,321,202	2,061,677
Less: Statutory reserve fund	(167,873)	(133,655)
Total capital	2,153,329	1,928,022
Capital and net debt	4,373,449	3,469,394
Gearing ratio	50.8%	44.4%

Net debt includes interest-bearing bank and other borrowings, short-term bond payable, trade and bills payables, amounts due to related companies, accruals and other payables, less cash and cash equivalents, and pledged deposits. Capital includes equity attributable to owners of the parent less the above-mentioned restricted statutory reserve fund.

46. Reconciliation between SFRSs and International Financial Reporting Standards ("IFRSs")

For the years ended 31 December 2012 and 2011, there were no material differences between the consolidated statements of comprehensive income of the Group prepared under SFRSs and IFRSs.

The differences between the consolidated statements of financial position and the consolidated statements of changes in equity of the Group as at 31 December 2012 and 2011 prepared under SFRSs and IFRSs are as follows:

	Note	Issued capital RMB'000	Convertible bonds RMB'000	Statutory reserve fund RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
As at 31 December 2012								
Total equity under SFRSs		836,671	322,436	167,873	931,222	63,000	7,230	2,328,432
Share issue expenses	(i)	44,453	–	–	(44,453)	–	–	–
Total equity under IFRSs		881,124	322,436	167,873	886,769	63,000	7,230	2,328,432
As at 31 December 2011								
Total equity under SFRSs		836,671	321,996	133,655	732,355	37,000	–	2,061,677
Share issue expenses	(i)	44,453	–	–	(44,453)	–	–	–
Total equity under IFRSs		881,124	321,996	133,655	687,902	37,000	–	2,061,677

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 in Singapore while IFRSs require share issue expenses to be allocated to new shares and existing shares and charged to equity and profit or loss, respectively.

The difference is brought forward from the listing of shares in 2009 and there is no difference between SFRSs and IFRSs thereafter.

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 February 2013.

Independent Auditors' Report

To the shareholders of China XLX Fertiliser Ltd.
(Incorporated in Singapore with limited liability)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of China XLX Fertiliser Ltd. (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 88 to 156, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2011, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act, Chapter 50 (the "**Act**") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditors' Report (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2011 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

Report on other legal and regulatory requirements

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

22 March 2012

Consolidated Statement of Comprehensive Income

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	6	3,688,233	2,851,403
Cost of sales		(3,181,860)	(2,487,342)
Gross profit		506,373	364,061
Other income and gains	6	23,986	16,664
Selling and distribution expenses		(70,500)	(38,686)
General and administrative expenses		(136,059)	(104,150)
Other expenses		(20,025)	(8,461)
Finance costs	8	(78,930)	(53,447)
PROFIT BEFORE TAX	7	224,845	175,981
Income tax expense	11	(44,337)	(31,410)
Profit attributable to owners of the parent	12	180,508	144,571
OTHER COMPREHENSIVE INCOME			
Available-for-sale investment			
Change in fair value		(16,073)	–
Reclassification adjustment for impairment loss included in profit or loss		16,073	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		–	–
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT		180,508	144,571
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB cents per share)			
Basic and diluted	14	17.96	14.46

Details of the dividend proposed for the year are disclosed in note 13 to the financial statements.

Consolidated Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,542,168	2,414,545
Prepaid land lease payments	16	89,165	89,860
Goodwill	17	6,950	–
Coal mining right	18	41,763	–
Available-for-sale investment	19	–	21,778
Prepayments	23	216,822	4,098
Total non-current assets		2,896,868	2,530,281
CURRENT ASSETS			
Available-for-sale investment	19	5,705	–
Inventories	21	593,114	353,922
Trade receivables	22	28,725	13,567
Bills receivable	22	2,050	18,720
Prepayments	23	116,533	73,957
Deposits and other receivables	23	13,339	7,461
Income tax recoverable		7,263	15,895
Pledged deposits	24, 27	10,000	18,780
Cash and cash equivalents	24	514,098	162,773
Total current assets		1,290,827	665,075
Total assets		4,187,695	3,195,356
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Due to related companies	25	163	723
Trade payables	26	120,843	40,152
Bills payable	27	–	37,500
Accruals and other payables	28	336,373	265,049
Income tax payable		864	–
Deferred grants	29	3,465	3,960
Interest-bearing bank and other borrowings	30	541,000	200,000
Total current liabilities		1,002,708	547,384
Net current assets		288,119	117,691
TOTAL ASSETS LESS CURRENT LIABILITIES		3,184,987	2,647,972

Consolidated Statement of Financial Position (continued)

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	1,067,091	1,023,411
Deferred tax liabilities	32	56,219	35,071
Total non-current liabilities		1,123,310	1,058,482
Total liabilities		2,126,018	1,605,866
Net assets		2,061,677	1,589,490
Equity attributable to owners of the parent			
Issued capital	33	836,671	836,671
Convertible bonds	31	321,996	–
Statutory reserve fund	34	133,655	110,678
Retained profits		732,355	612,141
Proposed final dividend	13	37,000	30,000
Total equity		2,061,677	1,589,490
Total equity and liabilities		4,187,695	3,195,356

Statements of Changes in Equity

Year ended 31 December 2011

Group

	Notes	Issued capital (note 33) RMB'000	Convertible bonds (note 31) RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve fund (note 34) RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2010		836,671	–	–	94,200	514,550	29,222	1,474,643
Profit for the year		–	–	–	–	144,571	–	144,571
Other comprehensive income for the year:								
Change in fair value of an available-for-sale investment		–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	144,571	–	144,571
Transfer to statutory reserve fund	34	–	–	–	16,478	(16,478)	–	–
2009 final dividend declared		–	–	–	–	–	(29,724)	(29,724)
Transfer from retained profits to proposed 2009 final dividend		–	–	–	–	(502)	502	–
Proposed 2010 final dividend	13	–	–	–	–	(30,000)	30,000	–
At 31 December 2010		836,671	–	–	110,678	612,141	30,000	1,589,490
At 1 January 2011		836,671	–	–	110,678	612,141	30,000	1,589,490
Profit for the year		–	–	–	–	180,508	–	180,508
Other comprehensive income for the year:								
Change in fair value of an available-for-sale investment		–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	180,508	–	180,508
Transfer to statutory reserve fund	34	–	–	–	22,977	(22,977)	–	–
2010 final dividend declared		–	–	–	–	–	(30,317)	(30,317)
Issue of convertible bonds	31	–	324,366	–	–	–	–	324,366
Convertible bonds issue expenses	31	–	(2,370)	–	–	–	–	(2,370)
Transfer from retained profits to proposed 2010 final dividend		–	–	–	–	(317)	317	–
Proposed 2011 final dividend	13	–	–	–	–	(37,000)	37,000	–
At 31 December 2011		836,671	321,996	–	133,655	732,355	37,000	2,061,677

Statements of Changes in Equity (continued)

Year ended 31 December 2011

Company

	Notes	Issued capital (note 33) RMB'000	Convertible bonds (note 31) RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2010		836,671	–	–	(69,806)	29,222	796,087
Profit for the year		–	–	–	103,026	–	103,026
Other comprehensive income for the year							
Change in fair value of an available-for-sale investment		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	103,026	–	103,026
2009 final dividend declared		–	–	–	–	(29,724)	(29,724)
Transfer from retained profits to proposed 2009 final dividend		–	–	–	(502)	502	–
Proposed 2010 final dividend	13	–	–	–	(30,000)	30,000	–
At 31 December 2010		836,671	–	–	2,718	30,000	869,389
At 1 January 2011		836,671	–	–	2,718	30,000	869,389
Profit for the year		–	–	–	35,576	–	35,576
Other comprehensive income for the year							
Change in fair value of an available-for-sale investment		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	35,576	–	35,576
2010 final dividend declared		–	–	–	–	(30,317)	(30,317)
Issue of convertible bonds	31	–	324,366	–	–	–	324,366
Convertible bonds issue expenses	31	–	(2,370)	–	–	–	(2,370)
Transfer from retained profits to proposed 2010 final dividend		–	–	–	(317)	317	–
Proposed 2011 final dividend	13	–	–	–	(37,000)	37,000	–
At 31 December 2011		836,671	321,996	–	977	37,000	1,196,644

The difference between the proposed and declared 2010 final dividend of RMB317,000 (2010: RMB502,000) represented the exchange difference arising from the depreciation of the Renminbi against the Singapore dollar which was realised upon payment and was debited to the retained profits as at 31 December 2011.

Consolidated Statement of Cash Flows

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		224,845	175,981
Adjustments for:			
Amortisation of prepaid land lease payments	7	2,166	1,722
Amortisation of coal mining right	7	138	–
Depreciation of property, plant and equipment	7	172,100	165,905
Loss on disposal of items of property, plant and equipment	7	2,182	6,387
Amortisation of deferred grants	6	(495)	(495)
Dividend income from an available-for-sale investment	6	(720)	–
Impairment loss of an available-for-sale investment	7	16,073	–
Interest income	6	(1,596)	(456)
Finance costs	8	78,930	53,447
		493,623	402,491
Increase in inventories		(237,755)	(132,011)
Decrease in trade and bills receivables		7,633	8,989
Increase in prepayments		(39,782)	(15,065)
Decrease/(increase) in deposits and other receivables		(2,923)	29,410
Decrease in amounts due to related companies		(560)	(794)
Increase/(decrease) in trade and bills payables		43,191	(11,129)
Increase/(decrease) in accruals and other payables		24,207	(12,185)
Cash flows generated from operations		287,634	269,706
Government grants returned	29	–	(4,540)
Interest paid	36	(85,767)	(53,447)
Interest received		1,596	456
Tax paid		(23,483)	(27,834)
Net cash flows from operating activities		179,980	184,341

Consolidated Statement of Cash Flows (continued)

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		2,808	4,036
Purchases of items of property, plant and equipment		(479,025)	(373,744)
Purchases of land use rights	16	(1,603)	(20,806)
Purchase of an available-for-sale investment	19	–	(21,778)
Dividend received from an available-for-sale investment	6	720	–
Acquisition of a subsidiary	35	(39,064)	–
Decrease in pledged time deposits		8,780	2,393
Net cash flows used in investing activities		(507,384)	(409,899)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares		(30,317)	(29,724)
Proceeds from issue of convertible bonds	31	324,366	–
Proceeds from loans and borrowings		1,040,000	1,013,259
Repayments of loans and borrowings		(655,320)	(735,000)
Net cash flows from financing activities		678,729	248,535
NET INCREASE IN CASH AND CASH EQUIVALENTS		351,325	22,977
Cash and cash equivalents at beginning of year		162,773	139,796
Cash and cash equivalents at end of year		514,098	162,773
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	24	470,466	162,773
Non-pledged time deposits with original maturity of less than three months when acquired	24	43,632	–
Cash and cash equivalents as stated in the consolidated statement of financial position		514,098	162,773

Statement of Financial Position

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	20	1,080,000	800,000
Available-for-sale investment	19	–	21,778
Total non-current assets		1,080,000	821,778
CURRENT ASSETS			
Available-for-sale investment	19	5,705	–
Due from a subsidiary	20	84,061	53,851
Prepayments and other receivables	23	317	546
Cash and cash equivalents	24	45,015	836
Total current assets		135,098	55,233
Total assets		1,215,098	877,011
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Accruals		18,454	7,622
Net current assets		116,644	47,611
Net assets		1,196,644	869,389
Equity attributable to owners of the parent			
Issued capital	33	836,671	836,671
Convertible bonds	31	321,996	–
Retained profits	34	977	2,718
Proposed final dividend	13	37,000	30,000
Total equity		1,196,644	869,389
Total equity and liabilities		1,215,098	877,011

Notes to Financial Statements

31 December 2011

1. Corporate Information

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are dual primary listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and The Stock Exchange of Hong Kong Limited. 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 High Technology Development Zone (Xiaoji Town), Henan Province, the People's Republic of China (the "**PRC**"). The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are disclosed in note 20 to the financial statements.

2.1 Basis of Preparation

These financial statements have 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 Singapore Accounting Standards Council.

These financial statements have been prepared on a historical cost basis, except for an available-for-sale investment, which has been measured at fair value. These financial statements are presented in Renminbi ("**RMB**") and all values in the tables are rounded to the nearest thousand ("**RMB'000**") except when otherwise indicated.

2.2 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted the following standards and interpretations mandatory for annual financial periods beginning on or after 1 January 2011.

- Amendments to SFRS 24 *Related Party Disclosures*
- Amendments to SFRS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
- Amendments to SFRS 101 *Limited Exemption from Comparative SFRS 107 Disclosures for First-Time Adopters*
- Amendments to INT SFRS 114 Prepayments of a Minimum Funding Requirement
- INT SFRS 115 *Agreements for the Construction of Real Estate*
- INT SFRS 119 *Extinguishing Financial Liabilities with Equity Instruments*
- Improvements to SFRSs issued in 2010:
  - Amendments to SFRS 103 *Business Combinations*
  - Amendments to SFRS 1 *Presentation of Financial Statements*
  - Amendments to transition requirements for amendments arising as a result of SFRS 27 *Consolidated and Separate Financial Statements*
  - Amendments to INT SFRS 113 *Customer Loyalty Programmes*
  - Amendments to SFRS 101 *First-time Adoption of Financial Reporting Standards*
  - Amendments to SFRS 107 *Financial Instruments: Disclosures*
  - Amendments to SFRS 34 *Interim Financial Reporting*

The adoption of these standards and interpretations did not have material effect on the results and financial position of the financial statements, or their presentation.

Notes to Financial Statements

31 December 2011

2.3 Standards Issued but not yet Effective

The Group has not adopted the following standards and interpretations that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS 107 *Disclosures – Transfers of Financial Assets*	1 July 2011
Amendments to SFRS 101 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*	1 July 2011
Amendments to SFRS 12 *Deferred Tax: Recovery of Underlying Assets*	1 January 2012
Amendments to SFRS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
Revised SFRS 19 *Employee Benefits*	1 January 2013
Revised SFRS 27 *Separate Financial Statements*	1 January 2013
Revised SFRS 28 *Investments in Associates and Joint Ventures*	1 January 2013
SFRS 110 *Consolidated Financial Statements*	1 January 2013
SFRS 111 *Joint Arrangements*	1 January 2013
SFRS 112 *Disclosure of Interests in Other Entities*	1 January 2013
SFRS 113 *Fair Value Measurements*	1 January 2013

Except for the Amendments to SFRS 1, the directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to SFRS 1 is described below.

Amendments to SFRS 1 Presentation of Items of Other Comprehensive Income

The Amendments to SFRS 1 Presentation of Items of Other Comprehensive Income ("OCI") is effective for financial periods beginning on or after 1 July 2012.

The Amendments to SFRS 1 changes the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the parent company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

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

3. Summary of Significant Accounting Policies (continued)

Business combinations

Business combinations are accounted for by applying the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For items that are traded in active markets, the fair value is determined with reference to quoted market prices. For items with no active market, the fair value is determined using appropriate valuation techniques, such as discounted cash flow analysis. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with SFRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not be remeasured until it is finally settled within equity.

In business combinations achieved in stages, previously held equity interests in the acquiree are remeasured to fair value at the acquisition date and any corresponding gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in "*Goodwill*" below. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Functional currency

The Group's principal operations are conducted in the PRC. Management has determined the currency of the primary economic environment in which each entity in the Group operates, i.e., functional currency, to be 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.

Foreign currency transactions

Transactions in foreign currencies are measured and recorded in the respective functional currencies of the Company and its subsidiaries 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 end of the reporting period. 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 rate at the date when the fair value was determined.

Notes to Financial Statements
31 December 2011

3. Summary of Significant Accounting Policies (continued)

Foreign currency transactions (continued)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in profit or loss 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 other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

For consolidation purpose, the assets and liabilities of foreign operations are translated into RMB at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences are re-attributed to non-controlling interest and are not recognised in profit or loss. For partial disposals of associates or jointly controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Group or Company or of a parent of the Company;

3. Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) An entity is related to the Group and the Company if any of the following conditions applies:

(i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent 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 which includes the cost of replacing part of the property, plant and equipment 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 profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Notes to Financial Statements
31 December 2011

3. Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation (continued)

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 estimated useful lives and residual values used for this purpose are as follows:

	Years	Residual value
Buildings	15 – 25	3 to 10%
Other fixtures and structures	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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 profit or loss 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, it 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 when completed and ready for use.

Coal mining right

Coal mining right is stated at cost less accumulated amortisation and any impairment losses. The mining right is amortised on the straight-line basis over its estimated useful life of 27 years. The useful life of the coal mining right is reviewed annually in accordance with the production plans of the Group and the proven and probable reserves of the mine. The coal mining right is written off to profit or loss if the coal mining property is abandoned.

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 the straight-line basis over the lease terms of 50 years.

The amortisation period and method are reviewed at each financial year end. The amortisation expense is recognised in profit or loss.

3. Summary of Significant Accounting Policies (continued)

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 or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset 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. In determining fair value less costs to sell, recent market transactions are taken in account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, 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 Group estimates the asset's or cash-generating unit's recoverable amount. 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 increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Notes to Financial Statements 31 December 2011

3. Summary of Significant Accounting Policies (continued)

Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in "*Foreign currency transactions*" above.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in RMB at the rates prevailing at the date of acquisition.

Financial assets

Initial recognition and measurement

Financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

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.

3. Summary of Significant Accounting Policies (continued)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) *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 impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, and through the amortisation process.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets include equity investments and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised. Investments in equity instruments whose fair value cannot be reliably measured are measured at cost less impairment loss.

De-recognition

A financial asset is de-recognised where the contractual right to receive cash flows from the asset has expired. On de-recognition 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 had been recognised in other comprehensive income is recognised in profit or loss.

All regular way purchases and sales of financial assets are recognised or de-recognised 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.

Notes to Financial Statements

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3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets

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

(a) *Financial assets carried at amortised cost*

For financial assets carried at amortised cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

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. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The impairment loss is recognised in profit or loss.

When the asset becomes uncollectible, the carrying amount of the 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 profit or loss.

(b) *Financial 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.

3. Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

(c) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, directly attributable transaction costs.

Notes to Financial Statements
31 December 2011

3. Summary of Significant Accounting Policies (continued)

Financial liabilities (continued)

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

(a) *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 at fair value through profit or loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Subsequent to initial recognition, financial liabilities 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 liabilities are recognised in profit or loss.

The Group has not designed any financial liabilities upon initial recognition at fair value through profit or loss.

(b) *Other financial liabilities*

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Convertible bonds

Convertible bonds issued by the Company are recognised and included in shareholders' equity based on the terms of the contract. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the convertible bonds is not remeasured in subsequent years.

3. Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise unpledged bank deposits, cash and bank balances and short-term, highly liquid investments that are readily convertible to known amounts of cash, 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 the normal operating capacity (excluding borrowing costs). These costs are assigned on a weighted average basis.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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 (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period 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.

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31 December 2011

3. Summary of Significant Accounting Policies (continued)

Government grants

Government grants are received from the local PRC government on a discretionary basis as determined by the government. A government grant 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 profit or loss 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 profit or loss 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 capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the assets for their intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Employee benefits – pension benefits

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a certain percentage of its 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 subsidiaries' 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 operating leases net of any incentives received from lessor are charged to profit or loss on the straight-line basis over the lease terms.

3. Summary of Significant Accounting Policies (continued)

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 regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

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.

c) *Dividend income*

Dividend income is recognised when the Group's right to receive payment is established.

Income taxes

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

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 at the end of each reporting period, in the countries where the Group operates and generates taxable income.

Current income taxes are recognised in profit or loss except to the extent that tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Notes to Financial Statements

31 December 2011

3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

Deferred tax (continued)

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, the carryforward of unused tax credits and any unused tax losses, if it is not probable that taxable profit will be available against which the deductible temporary differences, carryforward 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 end of the reporting period.

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, 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.

3. Summary of Significant Accounting Policies (continued)

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

Proceeds from the 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.

Contingencies

A contingent liability is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

- (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

- (ii) the amount of the obligation cannot be measured with sufficient reliability.

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

Contingent liabilities and assets are not recognised in the consolidated statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Notes to Financial Statements

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4. Significant Accounting Estimates and Judgements

The preparation of the 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 end of each reporting period. 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 periods.

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 Singapore and 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 recoverable, payable and deferred tax liabilities at 31 December 2011 were RMB7,263,000, RMB864,000 and RMB56,219,000, respectively (2010: income tax recoverable and deferred tax liabilities were RMB15,895,000 and RMB35,071,000, respectively).

Key sources of estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was HK$6,950,000 (2010: Nil). Further details are given in note 17.

Useful lives of plant and machinery

The cost of plant and machinery for the production of fertilisers is depreciated on the 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 development could impact the economic useful lives of the plant and machinery and therefore depreciation charges could be changed in line with revisions to expected economic useful lives. The carrying amount of the Group's plant and machinery at 31 December 2011 was RMB1,607,262,000 (2010: RMB1,613,726,000).

4. Significant Accounting Estimates and Judgements (continued)

Key sources of estimation uncertainty (continued)

Impairment of an available-for-sale investment

The Group classifies an investment as available-for-sale and recognises movements of its fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. At 31 December 2011, impairment loss of RMB16,073,000 has been recognised for an available-for-sale investment (2010: Nil). The carrying amount of the available-for-sale investment was RMB5,705,000 (2010: RMB21,778,000).

Impairment of coal mining right

The carrying value of the coal mining right is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy for the impairment of non-financial assets in this section. The recoverable amount of the coal mining right, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order calculate the present value of those cash flows. At 31 December 2011, no impairment loss has been recognised for the coal mining right. The carrying amount of the coal mining right at 31 December 2011 was RMB41,763,000 (2010: Nil).

Coal mine reserve

Engineering estimates of the Group's coal mine reserve are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before an estimated coal mine reserve can be designated as "proved" and "probable". Proved and probable coal mine reserve estimates are updated on regular intervals taking into recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of the proved and probable coal mine reserve also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining amortisation expenses and impairment loss. The capitalised cost of the coal mining right is amortised over the estimated useful life of the related coal mine reserve. The useful life is reviewed annually in accordance with the production of the plants of the Group and the proven and probable reserves of the coal mine. The carrying amount of the coal mining right at 31 December 2011 was RMB41,763,000 (2010: Nil).

Notes to Financial Statements
31 December 2011

5. Operating Segment Information

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 a neutral nitrogen-based fertiliser which is suitable for various crops and land. It does 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 pharmaceutical industries.

(ii) Compound fertiliser

Compound fertiliser is a type of round, hard, 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 toxic liquid alcohol. 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 involved in the production of liquid ammonia and ammonia solution. In addition, as detailed in note 35 to the financial statements, in November 2011, the Group acquired a subsidiary that is engaged in coal mining and the sale of coal. However, in the opinion of the directors, the acquisition of the new subsidiary in the current year was completed close to year end and there were only limited operations in the new subsidiary after the acquisition by the Group and the assets and liabilities were not material for the purpose of segment reporting. Accordingly, a separate operating segment for the coal mining business carried out by the new subsidiary has not been presented.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of the Group’s business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm’s length basis in a manner similar to transactions with third parties.

5. Operating Segment Information (continued)

Allocation basis

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise other income and gains, other expenses, selling and distribution expenses, general and administrative expenses, financial costs and income tax expense.

Group assets and liabilities cannot be directly attributable to individual segments as it is impracticable to allocate them to the segments. Except for the assets and liabilities of the newly acquired subsidiary which were not material for the purpose of segment reporting, assets of the Group are utilised interchangeably between different segments and there is no reasonable basis to allocate liabilities of the Group between different segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by operating segments.

Geographical segments

There is no geographical segment information as the Group mainly operates in Mainland China only.

Information about a major customer

During the years ended 31 December 2011 and 2010, sales to the Group's major customer amounted to RMB203,684,000 (or 5.5% of the total sales) and RMB238,610,000 (or 8.4% of the total sales), respectively.

Segment profit definition

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

Notes to Financial Statements

31 December 2011

5. Operating Segment Information (continued)

Segment profit definition (continued)

Group

Year ended 31 December 2011	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	2,409,012	849,236	422,480	7,505	–	3,688,233
Intersegment sales	283,255	–	–	12,832	(296,087)	–
Total revenue	2,692,267	849,236	422,480	20,337	(296,087)	3,688,233
Segment profit/(loss)	406,492	127,089	(27,114)	(94)	–	506,373
Interest income						1,596
Unallocated other income and gains						22,390
Unallocated expenses						(226,584)
Financial costs						(78,930)
Profit before tax						224,845
Income tax expense						(44,337)
Net profit attributable to owners of the parent						180,508
Other segment information:						
Impairment of an available-for-sale investment						16,073
Loss on disposal of items of property, plant and equipment						2,182
Depreciation of property, plant and equipment						172,100
Amortisation of prepaid land lease payments						2,166
Amortisation of coal mining right						138

5. Operating Segment Information (continued)

Segment profit definition (continued)

Group

Year ended 31 December 2010	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	1,863,208	594,214	385,298	8,683	–	2,851,403
Intersegment sales	167,385	–	–	7,074	(174,459)	–
Total revenue	2,030,593	594,214	385,298	15,757	(174,459)	2,851,403
Segment profit/(loss)	306,361	67,585	(10,094)	209	–	364,061
Interest income						456
Unallocated other income and gains						16,208
Unallocated expenses						(151,297)
Financial costs						(53,447)
Profit before tax						175,981
Income tax expense						(31,410)
Net profit attributable to owners of the parent						144,571
Other segment information:						
Loss on disposal of items of property, plant and equipment						6,387
Depreciation of property, plant and equipment						165,905
Amortisation of prepaid land lease payments						1,722

Notes to Financial Statements

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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.

An analysis of the Group's revenue, other income and gains is as follows:

	2011 RMB'000	2010 RMB'000
Revenue		
Sale of goods	3,688,233	2,851,403
Other income and gains		
Bank interest income	1,596	456
Dividend income from an available-for-sale investment	720	–
Net profit from sales of by-products	5,356	5,269
Service fee income from related parties	60	112
Amortisation of deferred grants (note 29)	495	495
Subsidy income	6,667	8,020
Penalty income	7,798	–
Others	1,294	2,312
	23,986	16,664

7. Profit before Tax

The Group's profit before tax is arrived at after charging:

	Notes	2011 RMB'000	2010 RMB'000
Cost of inventories sold #		3,181,860	2,487,342
Depreciation of property, plant and equipment	15	172,100	165,905
Amortisation of prepaid land lease payments	16	2,166	1,722
Amortisation of coal mining right	18	138	–
Minimum lease payments under operating leases:			
Land		1,410	356
Buildings		480	948
		1,890	1,304
Auditors' remuneration		1,480	1,443
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and bonuses		139,889	93,510
Contributions to defined contribution plans		21,377	14,176
Welfare expenses		7,262	4,997
		168,528	112,683
Impairment of an available-for-sale investment *		16,073	–
Unrealised exchange loss *		1,095	443
Loss on disposal of items of property, plant and equipment *		2,182	6,387

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

\# Included wages and salaries of RMB25,624,000 (2010: RMB19,223,000) disclosed under employee benefit expenses and depreciation charges of RMB155,785,000 (2010: RMB155,722,000) disclosed under depreciation.

Notes to Financial Statements

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8. Finance Costs

The Group's finance costs are analysed as follows:

	2011 RMB'000	2010 RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	79,848	53,187
Interest on bank loans, overdrafts and other loans, wholly repayable after five years	5,687	–
Interest on government loans	232	260
	85,767	53,447
Less: Interest capitalised (note 36)	(6,837)	–
	78,930	53,447

9. Directors' Remuneration

Details of directors' remuneration are as follows:

	2011 RMB'000	2010 RMB'000
Fees	800	800
Other emoluments:		
Salaries, allowances and benefits in kind	4,550	2,286
Pension scheme contributions	66	54
	4,616	2,340
	5,416	3,140

(a) Independent non-executive directors

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

	2011 RMB'000	2010 RMB'000
Ong Kian Guan	300	300
Li Shengxiao	250	250
Ong Wei Jin	250	250
	800	800

There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2011 (2010: Nil).

9. Directors' Remuneration (continued)

(b) Executive directors and a non-executive director

Year ended 31 December 2011	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Liu Xingxu	–	877	911	22	1,810
Yan Yunhua	–	698	683	22	1,403
Li Buwen	–	698	683	22	1,403
	–	2,273	2,277	66	4,616
Non-executive director:					
Lian Jie	–	–	–	–	–
	–	2,273	2,277	66	4,616

Year ended 31 December 2010	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Liu Xingxu	–	882	–	18	900
Yan Yunhua	–	702	–	18	720
Li Buwen	–	702	–	18	720
	–	2,286	–	54	2,340

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2011 (2010: Nil).

During the year, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office.

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10. Five Highest Paid Employees

The five highest paid employees in the Group for the year included three (2010: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2010: two) non-director, highest paid employees for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	1,280	1,188
Performance-related bonuses	145	102
Pension scheme contributions	45	210
	1,470	1,500

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

	2011	2010
Nil to RMB500,000	–	–
RMB500,001 to RMB1,000,000	2	2
	2	2

During the year, no remuneration was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

11. Income Tax

The Company is incorporated in Singapore and is subject to income tax at the rate of 17% (2010: 17%) for the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The Company's subsidiaries in Mainland China are subject to income tax at the rate of 25% (2010: 25%). Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", one of the subsidiaries is entitled to full exemption from income tax for the first two profitable years and a 50% reduction in income tax for the following three years. This 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, this subsidiary was exempted from income tax during the years ended 31 December 2007 and 2008, and had a 50% tax exemption for the three years ended 31 December 2009, 2010 and 2011 (i.e., 12.5%).

11. Income Tax (continued)

The major components of income tax expense for the financial years ended 31 December 2011 and 2010 are:

Group

	2011 RMB'000	2010 RMB'000
Current – PRC		
Charge for the year	32,621	23,043
Underprovision in respect of prior years	358	128
Deferred (note 32)	11,358	8,239
Total tax charge for the year	44,337	31,410

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax charge for the year at the effective tax rate is as follows:

	2011 RMB'000	2010 RMB'000
Profit before tax	224,845	175,981
Tax at statutory tax rates	59,455	44,953
Expenses not deductible for tax	5,978	1,584
Effect of withholding tax at 5% on the distributable profits of the PRC subsidiary	11,388	8,239
Effect of a tax holiday	(32,655)	(23,494)
Adjustments in respect of current tax of previous periods	358	128
Others	(187)	–
Tax charge for the year at the effective tax rate	44,337	31,410

12. Net Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a profit of RMB35,576,000 (2010: RMB103,026,000) which has been dealt with in the financial statements of the Company.

13. Dividend

	2011 RMB'000	2010 RMB'000
Proposed final dividend – RMB3.70 cents (2010: RMB3.00 cents) per ordinary share	37,000	30,000

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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14. Earnings Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic and diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued during the year) of 1,005,304,000 (2010: 1,000,000,000) in issue during the year, as adjusted to reflect the convertible bonds issued during the year.

The calculations of basic and diluted earnings per share are based on the following data:

	2011 RMB'000	2010 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	180,508	144,571

	2011 Number of shares	2010 Number of shares
Shares		
Weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued during the year) for the purpose of calculating basic and diluted earnings per share	1,005,304,000	1,000,000,000

15. Property, Plant and Equipment

Group

31 December 2011

	Buildings RMB'000	Other fixtures and structures RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 31 December 2010 and 1 January 2011	231,858	260,712	2,051,270	76,804	15,456	297,163	2,933,263
Additions	9,602	5,477	22,451	4,166	5,153	216,671	263,520
Acquisition of a subsidiary (note 35)	2,474	23,050	14,153	228	1,288	–	41,193
Transfers	34,124	98,158	104,068	(5,371)	165	(231,144)	–
Disposals	(182)	(640)	(9,758)	(139)	(312)	–	(11,031)
At 31 December 2011	277,876	386,757	2,182,184	75,688	21,750	282,690	3,226,945
Accumulated depreciation:							
At 31 December 2010 and 1 January 2011	19,139	28,119	437,544	28,195	5,721	–	518,718
Depreciation charged for the year	9,989	12,392	142,919	3,616	3,184	–	172,100
Disposals	(29)	(122)	(5,541)	(100)	(249)	–	(6,041)
At 31 December 2011	29,099	40,389	574,922	31,711	8,656	–	684,777
Net carrying amount:							
At 31 December 2011	248,777	346,368	1,607,262	43,977	13,094	282,690	2,542,168

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15. Property, Plant and Equipment (continued)

Group

31 December 2010

	Buildings RMB'000	Other fixtures and structures RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2010	210,316	237,553	1,936,179	55,248	11,054	224,225	2,674,575
Additions	–	252	9,677	6,180	4,630	268,121	288,860
Transfers	21,711	23,862	133,420	16,190	–	(195,183)	–
Disposals	(169)	(955)	(28,006)	(814)	(228)	–	(30,172)
At 31 December 2010	231,858	260,712	2,051,270	76,804	15,456	297,163	2,933,263
Accumulated depreciation:							
At 1 January 2010	9,938	18,613	322,825	17,772	3,414	–	372,562
Depreciation charged for the year	9,224	10,307	132,812	11,189	2,373	–	165,905
Disposals	(23)	(801)	(18,093)	(766)	(66)	–	(19,749)
At 31 December 2010	19,139	28,119	437,544	28,195	5,721	–	518,718
Net carrying amount:							
At 31 December 2010	212,719	232,593	1,613,726	48,609	9,735	297,163	2,414,545

The Group's buildings with aggregate net carrying amount of RMB248,777,000 (2010: RMB212,719,000) are situated in Mainland China.

16. Prepaid Land Lease Payments

Group

	Notes	2011 RMB'000	2010 RMB'000
Carrying amount at 1 January		91,845	72,761
Additions		1,603	20,806
Amortisation during the year	7	(2,166)	(1,722)
Carrying amount at 31 December		91,282	91,845
Current portion included in prepayments	23	(2,117)	(1,985)
Non-current portion		89,165	89,860

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. The leasehold land has a remaining tenure from 42 to 47 years (2010: from 43 to 48 years).

17. Goodwill

Group

	RMB'000
Cost at 1 January 2010, 31 December 2010 and 1 January 2011	–
Acquisition of a subsidiary (note 35)	6,950
Cost and net carrying amount at 31 December 2011	6,950
At 31 December 2011:	
Cost	6,950
Accumulated impairment	–
Net carrying amount	6,950

Impairment testing of goodwill

Goodwill acquired through a business combination amounting to RMB6,950,000 has been allocated to the coal mining cash-generating unit for impairment testing.

The recoverable amount of the coal mining cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by management covering a 27-year period. The cash flow projections are discounted using the discount rate of 9%.

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17. Goodwill (continued)

Key assumptions used in value-in-use calculation

The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

(i) Budgeted gross margin

The basis used to determine the value assigned to the future gross margin is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

(ii) Raw materials price inflation

The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year.

(iii) Commodity price inflation

The basis used to determine the value assigned to commodity price inflation is the expectation of future changes in the market.

(iv) Discount rate

The discount rate used is before tax and reflects specific risks relating to the relevant unit.

18. Coal Mining Right

Group

	RMB'000
Cost:	
At 1 January 2010, 31 December 2010 and 1 January 2011	–
Acquisition of a subsidiary (note 35)	41,901
At 31 December 2011	41,901
Accumulated amortisation:	
At 1 January 2010, 31 December 2010 and 1 January 2011	–
Amortisation provided for the year	138
At 31 December 2011	138
Net carrying amount	
At 31 December 2011	41,763

19. Available-for-Sale Investment

	Group and Company	
	2011	2010
	RMB'000	RMB'000
NON-CURRENT		
Listed equity investment, at fair value:		
Singapore	–	21,778
CURRENT		
Listed equity investment, at fair value:		
Singapore	5,705	–

The above investment in equity securities is designated as an available-for-sale financial asset and has no fixed maturity or coupon rate.

During the year, the gross loss in respect of the available-for-sale investment recognised in other comprehensive income amounted to RMB16,073,000. There was a significant decline in the market value of the listed equity investment during the year. The directors consider that such a decline indicates that the listed equity investment has been impaired and an impairment loss of RMB16,073,000 (2010: Nil), which included a reclassification from other comprehensive income of RMB16,073,000 (2010: Nil), has been recognised in profit or loss for the year.

The available-for-sale investment was transferred from non-current assets to current assets at the end of the reporting period because it is the intention of the directors of the Company to dispose of the investment in the forthcoming year. The market value of the listed equity investment at the date of approval of these financial statements was approximately RMB7,645,000.

Notes to Financial Statements

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20. Investments in Subsidiaries

	Company 2011 RMB'000	2010 RMB'000
Unlisted shares, at cost	1,080,000	800,000

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Henan Xinlianxin Fertiliser Co., Ltd.* #	PRC/ Mainland China	RMB1,080,000,000 (2010: RMB800,000,000)	100% (2010: 100%)	–	Manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution
Henan Shoulashou Fertiliser Co., Ltd.#	PRC/ Mainland China	RMB1,000,000	–	100% (2010: Nil)	Dormant
Xinjiang Xinlianxin Energy Chemical Co., Ltd.#	PRC/ Mainland China	RMB130,000,000	–	100% (2010: Nil)	Investment holding
瑪納斯天利煤業有限責任公司 ("Tianli")#	PRC/ Mainland China	RMB45,000,000	–	100% (2010: Nil)	Coal mining and sales of coal

* The subsidiary is registered as a wholly-foreign-owned enterprise under PRC law.

The statutory audited financial statements of the subsidiaries for the year ended 31 December 2011 were not audited by Ernst & Young LLP, Singapore or another member firm of the Ernst & Young global network.

During the year, the Group acquired 瑪納斯天利煤業有限責任公司 from an independent third party. Further details of this acquisition are included in note 35 to the financial statements and the Company's announcement dated 23 November 2011.

21. Inventories

	Group 2011 RMB'000	2010 RMB'000
Statement of financial position:		
Raw materials	363,830	216,373
Parts and spares	13,941	13,129
Work-in-progress	6,077	6,758
Finished goods	209,266	117,662
	593,114	353,922
Profit or loss:		
Inventories recognised as an expense in cost of sales	3,000,451	2,312,397

22. Trade and Bills Receivables

	Group 2011 RMB'000	2010 RMB'000
Trade receivables	28,725	13,567
Bills receivable	2,050	18,720

Trade receivables are non-interest-bearing and are normally settled on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values on initial recognition. The Group's bills receivable are non-interest-bearing and are normally settled on terms of 90 to 180 days. 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. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

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22. Trade and Bills Receivables (continued)

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

	2011 RMB'000	2010 RMB'000
Within 1 month	20,256	13,131
1 to 3 months	1,842	276
3 to 6 months	6,625	160
6 to 12 months	2	–
	28,725	13,567

The movement in provision for impairment of trade receivables was as follows:

	2011 RMB'000	2010 RMB'000
At beginning of year	–	322
Amount written off as uncollectible	–	(322)
At end of year	–	–

The individually impaired trade receivables related to customers that were in financial difficulties or in default in repayments and were not expected to be recovered.

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

	2011 RMB'000	2010 RMB'000
Neither past due nor impaired	22,098	13,407
Less than 3 months past due	–	160
More than 3 months past due	6,627	–
	28,725	13,567

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.

23. Prepayments, Deposits and other Receivables

	Note	Group 2011 RMB'000	Group 2010 RMB'000
NON-CURRENT			
Prepayments			
Prepayments for purchases of items of plant and equipment		216,822	4,098
CURRENT			
Prepayments			
Advanced deposits to suppliers		113,591	71,535
Current portion of prepaid land lease payments	16	2,117	1,985
Other prepayments		825	437
		116,533	73,957
Deposits and other receivables			
VAT receivable		2,588	1,877
Others		10,751	5,584
		13,339	7,461
Total prepayments, deposits and other receivables		129,872	81,418

	Company 2011 RMB'000	Company 2010 RMB'000
Prepayments and other receivables		
Prepayments	317	437
Other receivables	–	109
	317	546

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.

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24. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Time deposits	53,632	18,780	43,632	–
Less: Pledged time deposits for bills payable (note 27)	(10,000)	(18,780)	–	–
	43,632	–	43,632	–
Cash at banks and on hand	470,466	162,773	1,383	836
Cash and cash equivalents	514,098	162,773	45,015	836

At 31 December 2011, the cash and bank balances of the Group denominated in RMB amounted to RMB497,273,000 (2010: RMB180,717,000). 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.

25. Due to Related Companies

The amounts due to related companies are unsecured, interest-free and repayable on demand, except for the amount due to Henan Xinlianxin Chemicals Group Co., Ltd. ("**Henan Chemicals**") which bears interest at 5.13% (2010: 5.4%) per annum.

Related companies comprise Henan Chemicals and its subsidiaries. The Company and Henan Chemicals have common shareholders and the Company's executive directors and executive officers have certain equity interests in Henan Chemicals.

26. Trade Payables

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within 1 month	37,048	3,223
1 to 3 months	77,608	34,696
3 to 6 months	3,288	688
6 to 12 months	2,596	239
Over 12 months	303	1,306
	120,843	40,152

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days. Trade payables are denominated in RMB.

27. Bills Payable

The Group's bills payable had an average maturity period of 90 to 180 days and were interest-free. Bills payable were denominated in RMB and were secured by time deposits of RMB10,000,000 (2010: RMB18,780,000) (note 24).

28. Accruals and other Payables

	Group	
	2011	2010
	RMB'000	RMB'000
Accruals		
Accrued expenses	45,238	18,489
Accruals for construction costs and purchases of items of property, plant and equipment	47,398	57,016
	92,636	75,505
Other payables		
Advanced purchase deposits from customers	145,411	181,257
VAT and other operating tax payables	4,483	660
Tender deposits	33,077	4,168
Staff deposits	–	210
Payable to the former owner of a newly acquired subsidiary	39,488	–
Others	21,278	3,249
	243,737	189,544
	336,373	265,049

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

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29. Deferred Grants

	Group 2011 RMB'000	Group 2010 RMB'000
Cost:		
At beginning of the year	6,000	10,540
Returned during the year	–	(4,540)
At end of year	6,000	6,000
Accumulated amortisation:		
At beginning of the year	2,040	1,545
Amortisation during the year	495	495
At end of year	2,535	2,040
Net carrying amount:		
Current	3,465	3,960

As at 31 December 2011 and 2010, deferred grants related to government grants given to the Group for the installation and building of machinery to implement energy-saving production methods and to reduce production cost and are amortised over the useful life of the related property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants. During the year ended 31 December 2010, a government grant of RMB4,540,000 was returned to the government as the project related to the grant was not executed eventually.

30. Interest-Bearing Bank and other Borrowings

Group

	2011			2010		
	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000
CURRENT						
Bank loans						
– secured (note (a))	6.45%	2012	90,000	5.4%	2011	30,000
– unsecured	5.4% to 7.1%	2012	451,000	4.86% to 5.4%	2011	170,000
			541,000			200,000
NON-CURRENT						
Bank loans						
– secured (note (a))	–	–	–	5.4%	2012	90,000
– unsecured	5.04% to 7.32%	2013 to 2016	1,058,000	5.4% to 5.85%	2012 to 2013	923,000
Loan from the government						
– unsecured (note (b))	Floating rate at 0.3% above market prime lending rate	2013	9,091	Floating rate at 0.3% above market prime lending rate	2013	10,411
			1,067,091			1,023,411
			1,608,091			1,223,411

30. Interest-Bearing Bank and other Borrowings (continued)

	Group 2011 RMB'000	2010 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	541,000	200,000
In the second year	628,000	625,000
In the third to fifth years, inclusive	200,000	388,000
Beyond five years	230,000	–
	1,599,000	1,213,000
Other borrowings repayable:		
In the second year	9,091	–
In the third to fifth years, inclusive	–	10,411
	9,091	10,411
	1,608,091	1,223,411

Notes:

(a) Certain bank loans of the Group were guaranteed by independent third parties.

(b) The loan from the 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.

31. Convertible Bonds

On 21 December 2011, the Company issued RMB denominated convertible bonds with a nominal value of RMB324,366,000. There was no movement in the number of convertible bonds during the year. The direct transaction costs attributable to the convertible bonds amounted to RMB2,370,000. The bonds are convertible at the option of the bondholder into ordinary shares of the Company at the initial conversion price of approximately RMB1.84 per share anytime after the issuance of the convertible bonds. While the convertible bonds bear interest at 4.5% per annum, the Company may, at its sole discretion, elect to defer the interest pursuant to the terms of the convertible bonds.

Unless previously redeemed, purchased and cancelled or converted, all the convertible bonds outstanding shall be converted into ordinary shares of the Company on the fifth anniversary of the date of issue. The convertible bonds are redeemable at the option of the holder of convertible bonds only upon the occurrence of a winding-up (any step taken by any person at the sole election of the Company (not under direction of any third party, including judicial or regulatory) with a view to the voluntary winding-up or dissolution or administration of any group companies (including but not limited to a members' voluntary solvent winding-up), or any group companies cease or threaten to cease to carry on all or substantially all of its business or operations) at a redemption price which shall be equivalent to the aggregate of the outstanding principal amount of the convertible bonds together with a redemption premium of 8.0% per annum on such outstanding principal amount, up to the date fixed for redemption.

In the opinion of the directors, the Company is able to defer or control the redemption of the principal, the payment of bond interests and other cash payments to the bondholder. Accordingly, the convertible bonds are classified as equity instruments.

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32. Deferred Tax Liabilities

Group

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2010	–	26,832	26,832
Deferred tax charged to profit or loss during the year (note 11)	–	8,239	8,239
At 31 December 2010 and at 1 January 2011	–	35,071	35,071
Acquisition of a subsidiary (note 35)	9,790	–	9,790
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(30)	11,388	11,358
At 31 December 2011	9,760	46,459	56,219

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 2009 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

Deferred tax liabilities arising from fair value adjustments arising from acquisition of a subsidiary represented the deferred tax liabilities on fair value uplift of the coal mining right owned by the subsidiary, 瑪納斯天利煤業有限責任公司("**Tianli**"), arising from acquisition. Details of the acquisition of Tianli are set out in note 35 to the financial statements.

33. Share Capital

Shares

	Number of ordinary shares		Amount	
	2011	2010	2011 RMB'000	2010 RMB'000
Issued and fully paid	1,000,000,000	1,000,000,000	836,671*	836,671*

* Equivalent to Singapore dollars ("SGD")165,677,000.

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. The ordinary shares have no par value.

34. Reserves

The amounts of the Group's and Company's reserves and the movements therein for the years ended 31 December 2011 and 2010 are presented in the statements of changes in equity.

In accordance with the Wholly Foreign Owned Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries are required to make appropriations to the Statutory Reserve Fund (the "**SRF**"). At least 10% of the 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 subsidiaries' 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 subsidiaries.

35. Business Combination

On 22 November 2011, the Group acquired a 100% interest in Tianli from an independent third party. Tianli is engaged in coal mining and the sale of coal. The acquisition was made as part of the Group's strategy to obtain the necessary upstream experience in managing coal mines. The purchase consideration for the acquisition was in the form of cash, with RMB40,000,000 paid at the acquisition date. The fair values of the identifiable assets and liabilities of Tianli as at the date of acquisition were determined by 新疆宏昌礦業權評估咨詢有限責任公司 and 河南豫財資產評估有限公司, independent professionally qualified valuers.

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35. Business Combination (continued)

The fair values of the identifiable assets and liabilities of Tianli as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	41,193
Coal mining right	18	41,901
Cash and bank balances		936
Trade and bills receivables		6,121
Prepayments		2,662
Other receivables		2,955
Inventories		1,437
Accruals and other payables		(54,365)
Deferred tax liabilities	32	(9,790)
Total identifiable net assets at fair value		33,050
Goodwill on acquisition	17	6,950
Satisfied by cash		40,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(40,000)
Cash and bank balances acquired	936
Net outflow of cash and cash equivalents included in cash flows from investing activities	39,064

Since the acquisition, Tianli contributed a loss of RMB1,060,000 to the Group's consolidated profit for the year ended 31 December 2011. Had the acquisition taken place at the beginning of the year, the revenue of the Group and the profit for the year would have been RMB3,719,433,000 and RMB190,214,000, respectively.

36. Note to the Consolidated Statement of Cash Flows

Major non-cash transaction – interest capitalisation

During the year, the Group capitalised interest expenses of RMB6,837,000 (2010: Nil) to property, plant and equipment (note 8).

37. Contingent Liabilities

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

38. Operating Lease Arrangements

At the end of the reporting period, the Group had outstanding operating lease agreements for buildings in Mainland China. Certain of these leases have options for renewal. Future minimum rentals payable under non-cancellable operating leases at the end of the reporting period are as follows:

	2011 RMB'000	2010 RMB'000
Within one year	1,082	1,831
In the second to fifth years, inclusive	3,488	6,504
After five years	27,416	47,316
	31,986	55,651

The Company had no operating lease arrangements as at 31 December 2011 and 2010.

39. Commitments

In addition to the operating lease commitments detailed in note 38 above, the Group had the following capital and other commitments at the end of the reporting period:

	2011 RMB'000	2010 RMB'000
Capital commitments		
Contracted, but not provided for:		
Buildings	179,785	–
Plant and machinery	128,593	27,900
	308,378	27,900
Authorised, but not contracted for:		
Plant and machinery	2,000,622	16,324
	2,309,000	44,224
Other commitments		
Purchases of raw materials	5,954	–

The Company had no material commitments as at 31 December 2011 and 2010.

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40. Related Party Transactions

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2011 RMB'000	2010 RMB'000
Sales of electricity, water and steam to: *	(i)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		1,004	1,005
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		9,032	4,092
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		12	6
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		298	242
– Xinxiang Yuyuan Chemical Co., Ltd. #		676	612
– Xinxiang Xinlianxin Hotel Co., Ltd. #		159	121
Service fee income for provision of calibration and testing services to:	(ii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		24	44
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		12	9
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		–	1
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		5	11
– Xinxiang Yuyuan Chemical Co., Ltd. #		18	46
– Xinxiang Xinlianxin Hotel Co., Ltd. #		1	1
Purchases of raw materials and consumables from:	(iii)		
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		265	287
Purchases of items of property, plant and equipment from:	(iv)		
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		2,447	4,436
Service fee expenses for provision of lifting services from:	(v)		
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		2,507	1,810
Operating lease expenses to:	(vi)		
– Henan Chemicals		480	480

* Amount represents gross sales of by-products and profit generated from such sales amounted to RMB1,601,000 (2010: RMB871,000) included in net profit from sales of by-products (note 6).

40. Related Party Transactions (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

	Notes	2011 RMB'000	2010 RMB'000
Management fee income from:	(vii)		
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		–	1
– Xinxiang Yuyuan Chemical Co., Ltd. #		–	1
Service fee expenses to:	(viii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		1	–
– Xinxiang Xinlianxin Hotel Co., Ltd. #		3,232	2,023
– Xinxiang City Eight Mile Gully Resort Co., Ltd. #		591	–
Interest expense to:	(ix)		
– Henan Chemicals		439	929

These companies are subsidiaries of Henan Chemicals, which has common shareholders with the Company. The Company's executive directors and executive officers have certain equity interests in Henan Chemicals.

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40. Related Party Transactions (continued)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (continued)

Notes:

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

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

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

(iv) The purchases of items of property, plant and equipment were charged based on the published prices and conditions offered to third parties by the related party.

(v) The service fee expenses for the provision of lifting services were charged based on mutually agreed terms with reference to the actual costs incurred.

(vi) The operating lease expenses for the year were charged at a fixed monthly amount of RMB40,000 (2010: RMB40,000).

(vii) The management fee income was received according to mutually agreed terms with reference to the actual costs incurred for the year ended 31 December 2010.

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

(ix) The interest expense was charged based on a fixed interest rate of 5.13% (2010: 5.4%) per annum on the balance due to the related company.

The related party transactions above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

40. Related Party Transactions (continued)

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

	2011 RMB'000	2010 RMB'000
Directors' fee	800	800
Salaries and bonuses	6,544	4,187
Contributions to defined contribution plans	151	128
	7,495	5,115
Comprise amounts paid to:		
– Directors of the Company	5,416	3,140
– Other key management personnel	2,079	1,975
	7,495	5,115

Further details of the directors' remuneration are included in note 9 to these financial statements.

41. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

		Loans and receivables	
	Notes	2011 RMB'000	2010 RMB'000
Trade receivables	22	28,725	13,567
Bills receivable	22	2,050	18,720
Deposits and other receivables	23	13,339	7,461
Pledged deposits	24	10,000	18,780
Cash and cash equivalents	24	514,098	162,773
		568,212	221,301

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41. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Group

Financial assets

		Available-for-sale financial assets	
	Note	2011 RMB'000	2010 RMB'000
Available-for-sale investment	19	5,705	21,778

Financial liabilities

		Financial liabilities at amortised cost	
	Notes	2011 RMB'000	2010 RMB'000
Due to related companies	25	163	723
Trade payables	26	120,843	40,152
Bills payable	27	–	37,500
Accruals and other payables	28	336,373	189,544
Interest-bearing bank and other borrowings	30	1,608,091	1,223,411
		2,065,470	1,491,330

Company

Financial assets

		Loans and receivables	
	Notes	2011 RMB'000	2010 RMB'000
Due from a subsidiary		84,061	53,851
Other receivables	23	–	109
Cash and cash equivalents	24	45,015	836
		129,076	54,796

41. Financial Instruments By Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Company

Financial asset

	Note	Available-for-sale financial assets 2011 RMB'000	2010 RMB'000
Available-for-sale investment	19	5,705	21,778

Financial liability

	Financial liabilities at amortised cost 2011 RMB'000	2010 RMB'000
Accruals	18,454	–

42. Fair Value and Fair Value Hierarchy

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
Financial assets				
Trade receivables	28,725	13,567	28,725	13,567
Bills receivable	2,050	18,720	2,050	18,720
Deposits and other receivables	13,339	7,461	13,339	7,461
Pledged deposits	10,000	18,780	10,000	18,780
Cash and cash equivalents	514,098	162,773	514,098	162,773
Available-for-sale investment	5,705	21,778	5,705	21,778
	573,917	243,079	573,917	243,079

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42. Fair Value and Fair Value Hierarchy (continued)

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows: (continued)

Group

	Carrying amounts		Fair values	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Financial liabilities				
Due to related companies	163	723	163	723
Trade payables	120,843	40,152	120,843	40,152
Bills payable	–	37,500	–	37,500
Accruals and other payables	336,373	189,544	336,373	189,544
Interest-bearing bank and other borrowings	1,608,091	1,223,411	1,608,091	1,223,411
	2,065,470	1,491,330	2,065,470	1,491,330

Company

	Carrying amounts		Fair values	
	2011	2010	2011	2010
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Due from a subsidiary	84,061	53,851	84,061	53,851
Other receivables	–	109	–	109
Cash and cash equivalents	45,015	836	45,015	836
Available-for-sale investment	5,705	21,778	5,705	21,778
	134,781	76,574	134,781	76,574
Financial liability				
Accruals	18,454	–	18,454	–

The Company had no financial liabilities as at 31 December 2011 and 2010.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, deposits and other receivables, accruals and other payables, and amounts due to related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

42. Fair Value and Fair Value Hierarchy (continued)

The fair value of the interest-bearing bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair value of the listed equity investment is determined by direct reference to its bid price quotation in an active market at the end of the reporting period.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group and Company
As at 31 December 2011

	Level 1 RMB'000
Available-for-sale investment	5,705

As at 31 December 2010

	Level 1 RMB'000
Available-for-sale investment	21,778

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2010: Nil).

Liabilities measured at fair value:

The Group and the Company had no financial liabilities measured at fair value as at 31 December 2011 and 2010.

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43. 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 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 receivable 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 and the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Credit risk concentration profile

The Group assesses 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 end of the reporting period is as follows:

	2011 RMB'000	% of total	2010 RMB'000	% of total
Urea	–	–	1,201	9
Compound fertiliser	27,660	96	12,366	91
Others	1,065	4	–	–
Total	28,725	100	13,567	100

At 31 December 2011, none of the Group's trade receivables (2010: approximately 53%) were due from its top 10 customers located in Mainland China.

43. Financial Risk Management Objectives and Policies (continued)

(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 and the Company's financial liabilities at the end of the reporting period based on the contractual undiscounted repayment obligations.

	1 year or less RMB'000	1 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
31 December 2011					
Due to related companies	163	–	–	–	163
Trade payables	120,540	303	–	–	120,843
Accruals and other payables	336,373	–	–	–	336,373
Interest-bearing bank and other borrowings	563,206	873,753	67,190	334,926	1,839,075
31 December 2010					
Due to related companies	723	–	–	–	723
Trade payables	40,152	–	–	–	40,152
Bills payable	37,500	–	–	–	37,500
Accruals and other payables	189,544	–	–	–	189,544
Interest-bearing bank and other borrowings	201,732	1,110,191	21,174	–	1,333,097
Company					
31 December 2011					
Accruals	18,454	–	–	–	18,454

The Company had no financial liabilities as at 31 December 2010.

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43. Financial Risk Management Objectives and Policies (continued)

(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 exposure to interest rate risk arises primarily from its loans and borrowings.

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 the carrying amounts of cash and short-term deposits based on their notional amounts, which 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	2011 RMB'000	2010 RMB'000
Interest expense			
RMB	10	(1,206)	(1,000)
Interest income			
RMB	10	435	158
SGD	10	1	–
United States dollars ("USD")	50	112	1

43. Financial Risk Management Objectives and Policies (continued)

(d) Foreign currency risk

The Group holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances (mainly in SGD, USD and Hong Kong dollars ("**HKD**")) are as follows:

	2011 RMB'000	2010 RMB'000
SGD	962	194
USD	25,539	303
HKD	324	339
	26,825	836

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

	2011 RMB'000	2010 RMB'000
SGD – strengthened 5% (2010: 5%)	48	10
– weakened 5% (2010: 5%)	(48)	(10)
USD – strengthened 2% (2010: 2%)	511	6
– weakened 2% (2010: 2%)	(511)	(6)
HKD – strengthened 1% (2010: 1%)	3	3
– weakened 1% (2010: 1%)	(3)	(3)

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44. 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 years ended 31 December 2011 and 2010.

As disclosed in note 34, subsidiaries of the Group are 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 subsidiaries for the years ended 31 December 2011 and 2010.

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%.

	2011 RMB'000	2010 RMB'000
Due to related companies	163	723
Trade payables	120,843	40,152
Bills payable	–	37,500
Accruals and other payables	336,373	265,049
Interest-bearing bank and other borrowings	1,608,091	1,223,411
Less: Cash and cash equivalents	(514,098)	(162,773)
Less: Pledged deposits	(10,000)	(18,780)
Net debt	1,541,372	1,385,282
Shareholders' equity	2,061,677	1,589,490
Less: Statutory reserve fund	(133,655)	(110,678)
Total capital	1,928,022	1,478,812
Capital and net debt	3,469,394	2,864,094
Gearing ratio	44.4%	48.4%

Net debt includes interest-bearing bank and other borrowings, trade and bills payables, amounts due to related companies, accruals and other payables, less cash and cash equivalents, and pledged deposits. Capital includes equity attributable to owners of the parent less the above-mentioned restricted statutory reserve fund.

45. Reconciliation Between SFRSs and International Financial Reporting Standards ("IFRSs")

For the years ended 31 December 2011 and 2010, there were no material differences between the consolidated statements of comprehensive income of the Group prepared under SFRSs and IFRSs.

The differences between the consolidated statements of financial position and the consolidated statements of changes in equity of the Group as at 31 December 2011 and 2010 prepared under SFRSs and IFRSs are as follows:

	Note	Issued capital RMB'000	Convertible bonds RMB'000	Statutory reserve fund RMB'000	Retained profits RMB'000	Total equity RMB'000
As at 31 December 2011						
Total equity under SFRSs		836,671	321,996	133,655	769,355	2,061,677
Share issue expenses	(i)	44,453	–	–	(44,453)	–
Total equity under IFRSs		881,124	321,996	133,655	724,902	2,061,677
As at 31 December 2010						
Total equity under SFRSs		836,671	–	110,678	642,141	1,589,490
Share issue expenses	(i)	44,453	–	–	(44,453)	–
Total equity under IFRSs		881,124	–	110,678	597,688	1,589,490

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 in Singapore while IFRSs require share issue expenses to be allocated to new shares and existing shares and charged to equity and profit or loss, respectively.

The difference is brought forward from the listing of shares in 2009 and there is no difference between SFRSs and IFRSs thereafter.

46. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 22 March 2012.

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