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CHINA XLX FERTILISER LTD.

中國心連心化肥有限公司*

(Incorporated in Singapore with limited liability)

(Hong Kong Stock Code: 1866)

(Singapore Stock Code: B9R)

**ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2013**

The Board of Directors (the “**Directors**”) of China XLX Fertiliser Ltd. (the “**Company**”) is pleased to announce its unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2013 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended 30 June	
		2013	2012
	Notes	(Unaudited) RMB'000	(Unaudited) RMB'000
REVENUE	4	1,964,791	2,030,943
Cost of sales		(1,560,012)	(1,656,502)
Gross profit		404,779	374,441
Other income, net	4	9,681	4,750
Selling and distribution expenses		(30,184)	(32,668)
General and administrative expenses		(118,921)	(91,705)
Finance costs	5	(39,480)	(42,975)
PROFIT BEFORE TAX	6	225,875	211,843
Income tax expense	7	(36,142)	(36,503)
PROFIT FOR THE PERIOD		189,733	175,340
OTHER COMPREHENSIVE INCOME			
Available-for-sale investment:			
Change in fair value		2,933	2,149
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		2,933	2,149
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		192,666	177,489
Profit attributable to:			
Owners of the parent		190,871	175,340
Non-controlling interest		(1,138)	–
		189,733	175,340
Total comprehensive income attributable to:			
Owners of the parent		193,804	177,489
Non-controlling interest		(1,138)	–
		192,666	177,489
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (RMB cents per share)	9	16.23 cents	14.9 cents

Details of the dividend paid for the period are disclosed in note 8 to the financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2013

		30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,094,505	3,019,025
Prepaid land lease payments	10	173,368	175,290
Goodwill		6,950	6,950
Coal mining rights	10	41,159	41,955
Available-for-sale investment	12	7,500	7,500
Deferred tax assets		2,618	4,706
Prepayments for purchases of items of plant and equipment	11	521,399	721,626
Total non-current assets		4,847,499	3,977,052
CURRENT ASSETS			
Due from a related company		–	1,760
Available-for-sale investment	12	7,634	4,701
Inventories	13	270,735	432,366
Trade and bills receivables	14	34,083	17,260
Prepayments	11	90,143	140,630
Deposits and other receivables		128,429	49,080
Income tax recoverable		15,424	3,858
Pledged deposits	15	119,500	12,900
Cash and cash equivalents	15	392,986	477,610
Total current assets		1,058,934	1,140,165
CURRENT LIABILITIES			
Due to related companies		4,477	135
Trade payables	16	52,512	110,773
Bills payable		43,000	25,800
Accruals and other payables		386,170	422,437
Income tax payable		–	4
Deferred grants		3,349	3,596
Short-term bond payable		300,000	300,000
Interest-bearing bank and other borrowings	17	194,983	172,000
Total current liabilities		984,491	1,034,745
NET CURRENT ASSETS		74,443	105,420
TOTAL ASSETS LESS CURRENT LIABILITIES		4,921,942	4,082,472

		30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	2,372,741	1,679,485
Deferred tax liabilities		51,081	51,081
Deferred grants		40,022	23,474
Total non-current liabilities		2,463,844	1,754,040
NET ASSETS		2,458,098	2,328,432
EQUITY			
Equity attributable to owners of the parent			
Issued capital		836,671	836,671
Statutory reserve fund		167,873	167,873
Convertible bonds		329,674	322,436
Fair value reserve		2,933	–
Retained profits		1,114,855	931,222
Proposed final dividend		–	63,000
		2,452,006	2,321,202
Non-controlling interest		6,092	7,230
Total equity		2,458,098	2,328,432

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

Group

	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	Non- controlling interest RMB'000	Total equity RMB'000
(Unaudited)								
As at 1 January 2013	836,671	322,436	–	167,873	931,222	63,000	7,230	2,328,432
Profit for the period	–	–	–	–	190,871	–	(1,138)	189,733
Other comprehensive income for the period:								
Change in fair value of an available-for-sale investment	–	–	2,933	–	–	–	–	2,933
Total comprehensive income for the period	–	–	2,933	–	190,871	–	(1,138)	192,666
Capital contribution by a non-controlling interest	–	–	–	–	–	–	–	–
2012 final dividend declared	–	–	–	–	–	(63,000)	–	(63,000)
Interests on convertible bonds	–	7,238	–	–	(7,238)	–	–	–
As at 30 June 2013	836,671	329,674	2,933	167,873	1,114,855	–	6,092	2,458,098

	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	Non- controlling interest RMB'000	Total equity RMB'000
(Unaudited)								
As at 1 January 2012	836,671	321,996	–	133,655	732,355	37,000	–	2,061,677
Profit for the period	–	–	–	–	175,340	–	–	175,340
Other comprehensive income for the period:								
Change in fair value of an available-for-sale investment	–	–	2,149	–	–	–	–	2,149
Total comprehensive income for the period	–	–	2,149	–	175,340	–	–	177,489
Capital contribution by a non-controlling interest	–	–	–	–	–	–	7,350	7,350
2011 final dividend declared	–	–	–	–	–	(37,000)	–	(37,000)
Interests on convertible bonds	–	7,678	–	–	(7,678)	–	–	–
As at 30 June 2012	836,671	329,674	2,149	133,655	900,017	–	7,350	2,209,516

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

		Six months ended 30 June	
	Notes	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Cash flows from operating activities			
Profit before tax		225,875	211,843
Adjustment for:			
Amortisation of prepaid land lease payment	6	1,921	1,008
Amortisation of coal mining rights	6	796	769
Depreciation of property, plant and equipment	6	90,401	88,916
Loss on disposal of items of property, plant and equipment	4, 6	1,215	3,345
Amortisation of deferred grants	4	(247)	(247)
Interest income	4	(5,148)	(2,113)
Interest expense	5	39,480	42,975
		354,293	346,496
Decrease in inventories		161,631	170,549
Increase in trade and bills receivables		(16,823)	(4,976)
Decrease/(increase) in prepayments		50,169	(3,299)
Decrease/(increase) in other receivables and deposits		31,447	(6,506)
Decrease in due from a related company		1,760	—
Decrease in trade and bills payables		(41,061)	(51,681)
Decrease in other payables and accruals		(231,289)	(50,795)
Increase/(decrease) in amounts due to related companies		4,342	(163)
Cash generated from operations		314,469	399,625
Interest received		5,148	2,113
Interest paid		(71,293)	(42,975)
Income taxes paid		(46,156)	(28,289)
Government grants received		2,756	6,260
Net cash generated from operating activities		204,924	336,734

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cash flows from investing activities		
Purchases of items of property, plant and equipment, and land use rights	(840,555)	(398,717)
Purchase of an available-for-sale investment	–	(7,500)
Proceeds from disposal of items of property, plant and equipment	533	149
(Increase)/decrease in bank pledged deposits	(106,600)	5,000
Net cash flows used in investing activities	(946,622)	(401,068)
Cash flows from financing activities		
Proceeds from loans and borrowings	1,262,983	550,000
Repayment of loans and borrowings	(542,909)	(300,409)
Capital contribution by a non-controlling interest	–	7,350
Dividends paid on ordinary shares	(63,000)	(37,000)
Net cash generated from financing activities	657,074	219,941
Net (decrease)/increase in cash and cash equivalents	(84,624)	155,607
Cash and cash equivalents at beginning of period	477,610	514,098
Cash and cash equivalents at end of period	392,986	669,705

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 June 2013

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 (“**SEHK**”). 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 and general trading. 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 SEHK and the relevant regulations of the SGX-ST.

The condensed consolidated interim financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2012.

2.2 CHANGES IN ACCOUNTING POLICIES 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.

- Amendments to SFRS 107 *Disclosures – Transfers of Financial Assets*
- 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*

The adoption of these standards did not have any material effect on the results and financial position of the financial statements, or their presentation for the current period.

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.

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.

For the six months ended 30 June 2013

	Urea	Compound	Methanol	Others	Elimination	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
Sales to external customers	1,239,573	490,436	230,713	4,069	–	1,964,791
Intersegment sales	155,328	–	–	2,304	(157,632)	–
Total revenue	1,394,901	490,436	230,713	6,373	(157,632)	1,964,791
Segment profit/(loss)	319,901	70,918	14,296	(336)	–	404,779
Interest income						5,148
Unallocated other income						4,533
Unallocated expenses						(149,105)
Finance costs						(39,480)
Profit before tax						225,875
Income tax expense						(36,142)
Profit for the period						189,733

For the six months ended 30 June 2012

	Urea (Unaudited) RMB'000	Compound fertiliser (Unaudited) RMB'000	Methanol (Unaudited) RMB'000	Others (Unaudited) RMB'000	Elimination (Unaudited) RMB'000	Total (Unaudited) RMB'000
REVENUE						
Sales to external customers	1,266,274	505,861	252,327	6,481	–	2,030,943
Intersegment sales	194,605	5,551	–	3,245	(203,401)	–
Total revenue	1,460,879	511,412	252,327	9,726	(203,401)	2,030,943
Segment profit/(loss)	297,525	81,209	(5,330)	1,037	–	374,441
Interest income						2,113
Unallocated other income						6,756
Unallocated expenses						(128,492)
Finance costs						(42,975)
Profit before tax						211,843
Income tax expense						(36,503)
Profit for the period						175,340

4. REVENUE AND OTHER INCOME/(EXPENSES), 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:

	Six months ended 30 June	
	2013 (Unaudited) RMB'000	2012 (Unaudited) RMB'000
Revenue		
Sale of goods	1,964,791	2,030,943
	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other income		
Bank interest income	5,148	2,113
Net profit from sales of by-products	2,158	962
Service fee income from related parties	1,560	1,172
Amortisation of deferred grants	247	247
Penalty income	–	2,483
Subsidy income	–	609
Others	2,459	1,283
	11,572	8,869

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Other expenses		
Loss on disposal of items of property, plant and equipment	(1,215)	(3,345)
Exchange loss, net	–	–
Impairment loss on an available-for-sale investment	–	–
Others	(676)	(774)
	<u>(1,891)</u>	<u>(4,119)</u>
Other income, net	<u>9,681</u>	<u>4,750</u>

5. FINANCE COSTS

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	71,293	33,402
Interest on bank loans, overdrafts and other loans, wholly repayable after five years	–	19,301
Less: interest capitalised	<u>(31,813)</u>	<u>(9,728)</u>
	<u>39,480</u>	<u>42,975</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	1,560,012	1,656,502
Depreciation of property, plant and equipment	90,401	88,916
Amortisation of prepaid land lease payments	1,921	1,008
Amortisation of coal mining rights	796	769
Minimum lease payments under operating leases:		
Land	706	706
Buildings	240	240
	<u>946</u>	<u>946</u>
Employee benefit expenses (including directors' remuneration):		
Salaries and bonuses	120,846	103,024
Contributions to defined contribution plans	13,073	14,288
Welfare expenses	11,900	6,670
	<u>145,819</u>	<u>123,982</u>
Auditors' remuneration	790	700
Impairment loss on an available-for-sale investment	–	–
Loss on disposal of items of property, plant and equipment	<u>1,215</u>	<u>3,345</u>

7. INCOME TAX

The Company is incorporated in Singapore and is subject to an income tax rate of 17% for the six months ended 30 June 2013 (six months ended 30 June 2012: 17%).

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 an income tax rate of 25% (2012: 25%). For the six months ended 30 June 2013, one of the subsidiaries was subject to a concessionary tax rate of 15% as it obtained the New/High Technology Enterprise Award.

The major components of income tax expense for the six months ended 30 June 2013 and 2012 are:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – PRC		
Charge for the period	36,142	33,461
Deferred	–	3,042
Total tax charge for the period	<u>36,142</u>	<u>36,503</u>

8. DIVIDEND

Final dividend of RMB63,000,000 (year ended 31 December 2011: RMB37,000,000) for the year ended 31 December 2012 was declared and paid during the six months ended 30 June 2013.

The Company did not recommend or declare any interim dividend for the six months ended 30 June 2013 (six months ended 30 June 2012: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

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 (six months ended 30 June 2012: 1,176,000,000) ordinary shares (inclusive of mandatorily convertible instruments issued during the period) outstanding during the period.

There were no potentially dilutive ordinary shares in existence during the six months ended 30 June 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, PREPAID LAND LEASE PAYMENTS AND COAL MINING RIGHTS

During the period, payments for purchases of items of property, plant and equipment, land use rights and coal mining rights and proceeds from disposal of items of property, plant and equipment of the Group amounted to approximately RMB838,722,000 and RMB533,000 (six months ended 30 June 2012: RMB398,717,000 and RMB149,000), respectively.

11. PREPAYMENTS

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
NON-CURRENT		
Prepayments:		
Prepayments for purchases of items of plant and equipment	<u>521,399</u>	<u>721,626</u>
CURRENT		
Prepayments:		
Advanced deposits to suppliers	86,300	129,842
Current portion of prepaid land lease payments	3,843	3,843
Other prepayments	–	6,945
	<u>90,143</u>	<u>140,630</u>

12. AVAILABLE-FOR-SALE INVESTMENT

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
NON-CURRENT		
Unlisted equity investment, at cost:		
PRC	<u>7,500</u>	<u>7,500</u>
CURRENT		
Listed equity investment, at fair value:		
Singapore	<u>7,634</u>	<u>4,701</u>

The above investments in equity securities 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 the six months period ended 30 June 2013.

The available-for-sale investment classified as current is a listed equity investment in Singapore which had a revaluation gain of RMB2,933,000 for the six months period ended 30 June 2013. The available-for-sale investment revaluation reserve was therefore credited by RMB2,933,000 in the consolidated statement of financial position. During the year ended 31 December 2012, a provision for impairment loss of RMB1,004,000 was made for the available-for-sale investment. The market value of the listed equity investment at the date of approval of these financial statements was approximately RMB4,701,000.

13. INVENTORIES

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Raw materials	142,826	243,444
Parts and spares	14,233	13,518
Work-in-progress	2,736	5,816
Finished goods	110,940	169,588
	<u>270,735</u>	<u>432,366</u>

14. TRADE AND BILLS RECEIVABLES

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Trade receivables	31,148	15,520
Bills receivable	2,935	1,740
	<u>34,083</u>	<u>17,260</u>

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 as at the end of the reporting period, based on the invoice due date and net of provisions, is as follows:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 1 month	22,314	13,876
1 to 3 months	6,154	830
3 to 6 months	1,900	469
6 to 12 months	780	345
	<u>31,148</u>	<u>15,520</u>

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Fixed deposits	119,500	12,900
Less: Pledged time deposits	(119,500)	(12,900)
Cash at banks and on hand	392,986	477,610
Cash and cash equivalents	392,986	477,610

As at 30 June 2013, the cash and bank balances of the Group denominated in RMB amounted to RMB392,986,000 (31 December 2012: RMB477,610,000). 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.

16. 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 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within 1 month	26,280	44,495
1 to 3 months	10,408	55,750
3 to 6 months	38	4,948
6 to 12 months	11,135	1,941
Over 12 months	4,651	3,639
	52,512	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.

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2013			31 December 2012		
	Contractual interest rate	Maturity	RMB'000 (Unaudited)	Contractual interest rate	Maturity	RMB'000 (Audited)
CURRENT						
Bank loans						
– unsecured	3 month libor+0.85% to 7.32%	2014	194,983	5.6% to 6.8%	2013	172,000
			<u>194,983</u>			<u>172,000</u>
NON-CURRENT						
Bank loans						
– unsecured	4% to 7.05%	2014 to 2018	2,366,377	1.81% to 7.32%	2014 to 2018	1,672,212
Loan from the government						
– unsecured (note (b))	Floating rate at 0.3% above the market prime lending rate	2020	6,364	Floating rate at 0.3% above the market prime lending rate	2020	7,273
			<u>2,372,741</u>			<u>1,679,485</u>
			<u>2,567,724</u>			<u>1,851,485</u>
				30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000	

Analysed into:

Bank loans repayable:

Within one year or on demand	194,983	172,000
In the second year	429,377	965,212
In the third to fifth years, inclusive	1,937,000	247,000
Beyond five years	–	460,000

2,561,360 1,844,212

Other borrowings repayable:

In the third to fifth years, inclusive	6,364	7,273
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2,567,724 1,851,485

Notes:

- Certain bank loans of the Group were guaranteed by independent third parties.
- The loan from the government bears interest at a floating rate of 0.35% (2012: 0.35%) 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.

18. MAJOR NON-CASH TRANSACTION – INTEREST CAPITALISATION

During the period under review, the Group capitalised interest expenses of RMB31,813,000 (2012: RMB9,728,000) to property, plant and equipment.

19. CONTINGENT LIABILITIES

As at the end of the reporting period, the Group did not have any significant contingent liabilities.

20. OPERATING LEASE ARRANGEMENTS

As 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 as at the end of the reporting period are as follows:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Within one year	19,420	19,420
In the second to fifth years, inclusive	297,956	297,956
After five years	32,105	32,105
	349,481	349,481

21. COMMITMENTS

In addition to the operating lease commitments detailed in note 20 above, the Group had the following capital and other commitments as at the end of the reporting period:

	30 June 2013 (Unaudited) RMB'000	31 December 2012 (Audited) RMB'000
Capital commitments:		
Contracted, but not provide for:		
Buildings	450,366	223,396
Plant and machinery	959,403	978,518
	1,409,769	1,201,914
Authorised, but not contracted for:		
Plant and machinery	1,806,414	2,689,163
	3,216,183	3,891,077
Other commitments:		
Purchases of raw materials	4,964	2,078

22. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in this interim financial information, the Group had the following transactions with related parties during the period:

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales of electricity, water and steam to:		
– Henan Shenzhou Heavy Sealing Co., Ltd. [#]	794	584
– Xinxiang Xinlianxin Gas Products Co., Ltd. [#]	–	5,071
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. [#]	42	8
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. [#]	74	77
– Xinxiang Yuyuan Chemical Co., Ltd. [#]	477	386
– Xinxiang Xinlianxin Hotel Co., Ltd. [#]	109	90
Service fee income for provision of calibration and testing services to:		
– Henan Shenzhou Heavy Sealing Co., Ltd. [#]	21	12
– Xinxiang Xinlianxin Gas Products Co., Ltd. [#]	–	4
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. [#]	6.8	21
– Xinxiang Yuyuan Chemical Co., Ltd. [#]	76	8
Purchases of raw materials and consumables from:		
– Xinxiang Xinlianxin Gas Products Co., Ltd. [#]	–	119
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. [#]	10,391	2,373
Service fee expenses for provision of lifting services from:		
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. [#]	1,685	880
Operating lease expenses to:		
– Henan Xinlianxin Chemicals Group Co., Ltd.	240	240
Service fee expenses to:		
– Xinxiang Xinlianxin Hotel Co., Ltd. [#]	1,714	1,973
– Xinxiang City Eight Mile Gully Resort Co., Ltd. [#]	286	92
Interest expense to:		
– Henan Xinlianxin Chemicals Group Co., Ltd.	–	–

[#] These companies are subsidiaries of Henan Xinlianxin Chemicals Group Co., Ltd. (“**Henan Chemicals**”), which has common shareholders with the Company. The Company’s executive directors and executive officers have certain equity interests in Henan Chemicals.

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

	Six months ended 30 June	
	2013	2012
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Directors’ fee	400	400
Salaries and bonuses	3,440	3,026
Contributions to defined contribution plans	48	48
Total compensation paid to key management personnel	3,888	3,474

23. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Revenue

Revenue for the half year ended 30 June 2013 (“1H2013”) decreased by about RMB66 million or 3% from approximately RMB2,031 million in the half year ended 30 June 2012 (“1H2012”) to approximately RMB1,965 million in 1H2013. The decrease was mainly due to the decrease in average selling prices of urea, compound fertiliser and methanol. The decrease in average selling prices was offset by the increase in sales volume of urea, compound fertiliser and methanol.

Urea

Revenue derived from the sales of urea decreased by approximately RMB27 million or approximately 2% from approximately RMB1,266 million for 1H2012 to RMB1,239 million for 1H2013 mainly due to the decrease in average selling price by approximately 8%. The annual maintenance for plant I and III were carried out in May 2013 which resulted in a reduction of urea outputs by approximately 20,000 tons. The decrease was offset by the increase in sales volume by approximately 6%.

Methanol

Revenue derived from the sales of methanol decreased by approximately RMB21 million or approximately 8% from approximately RMB252 million for 1H2012 to RMB231 million for 1H2013 mainly due to the decrease in average selling price by approximately 10%. The decrease was offset by the increase in sales quantity by approximately 2%.

Compound fertiliser

Revenue derived from the sales of compound fertiliser decreased by approximately RMB16 million or approximately 3% from approximately RMB506 million for 1H2012 to RMB490 million for 1H2013. Such decrease primarily resulted from the decrease in average selling price by approximately 8% in 1H2013 due to the decrease in raw material prices. The decrease was offset by the increase in sales quantity by approximately 5% resulting from the expansion of the sales network.

Gross profit margin

Overall gross profit margin increased from approximately 18% in 1H2012 to 21% in 1H2013 due to the increase in gross profit margins of urea and methanol.

Despite the decrease in urea average selling price, the gross profit margin of urea increased from approximately 24% in 1H2012 to 26% in 1H2013 due to lower coal prices which resulted in average cost of sales being approximately 11% lower than that of 1H2012.

Gross profit margin of methanol improved from a negative margin of 2%, approximately, in 1H2012 to a positive margin of 6%, approximately, in 1H2013. This was due to lower coal prices which resulted in average cost of sales being approximately 17% lower than that of 1H2012.

Gross profit margin of compound fertiliser decreased from approximately 16% in 1H2012 to 15% in 1H2013. This was mainly due to the decrease in average selling price by approximately 8%, which decrease was offset by the reduction of average cost of sales by approximately 6%.

Other income and expenses

Other income, net increased by approximately RMB5 million from approximately RMB5 million in 1H2012 to approximately RMB10 million in 1H2013. This was mainly due to the increase in interest income by approximately RMB3 million.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB3 million or 8% from approximately RMB33 million in 1H2012 to RMB30 million in 1H2013. This was mainly due to the decrease in loading and unloading costs by approximately RMB4 million, which decrease was partially offset by repair and maintenance costs by approximately RMB1 million.

General and administrative expenses

General and administrative expenses increased by approximately RMB27 million or 30% from approximately RMB92 million in 1H2012 to RMB119 million in 1H2013. The increase was mainly due to RMB11 million increases in advertising and publicity expenses in line with the Group's expansion. Staff costs increased by approximately RMB7 million due to the increase in the number of employees to be trained for the plant IV and Xinjiang Project. Office, training, environmental and consultancy expenses increased by approximately RMB7 million due to the Group's expansion. Depreciation and amortisation also increased by approximately RMB2 million due to the increase in property, plant and equipment.

Finance costs

Finance costs decreased by RMB4 million or 8% from approximately RMB43 million in 1H2012 to RMB39 million in 1H2013. The decrease was mainly due to replacement of interest-bearing loans and borrowings to lower interest rates.

Income tax expense

Income tax expense remained stable at RMB36 million in 1H2013 as compared against 1H2012. The normal corporate tax rate is 25%, whereas Henan XLX corporate tax rate is 15% as it was awarded the New/High Technology Enterprise Award for the financial years of 2012 and 2013.

Profit for the period

The net profit attributable to owners of the parent increased by approximately RMB15 million or 8% from approximately RMB175 million in 1H2012 to approximately RMB190 million in 1H2013. This was mainly due to the increase in gross profit of approximately RMB30 million in 1H2013 led by the reduction in the average cost of sales of urea, compound fertiliser and methanol and the increase in other incomes by approximately RMB5 million led by the increase in bank interest incomes. The increase in net profit attributable to owners of the Company was partially offset by the increase in general and administrative expenses of approximately RMB27 million.

Quarterly performance review

Net profits decreased by RMB43 million from RMB122 million in the second quarter of 2012 (“2Q2012”) to RMB79 million in the second quarter of 2013 (“2Q2013”). This was mainly due to the decrease in gross profit of RMB59 million in 2Q2013 mainly led by the annual maintenance for plant I and III carried out in May 2013 which resulted a reduction in urea outputs by approximately 20,000 tons, and the decrease in the gross profit margins of urea and compound fertiliser from 29% and 19% in 2Q2012 to 23% and 13% in 2Q2013 respectively. The decrease in gross profit was partially offset by the increase in the gross profit margin of methanol from 2% in 2Q2012 to 7% in 2Q2013. The decrease in net profit attributable to owners of the parent was partially offset by the increase in other income of approximately RMB8 million and the decrease in selling and distribution expenses of approximately RMB6 million.

(II) FINANCIAL REVIEW

Gearing

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%.

	30 June 2013 RMB’000 (Unaudited)	31 December 2012 RMB’000 (Audited)
Due to related companies	4,477	135
Trade and bills payables	95,512	136,573
Accruals and other payables	386,170	422,437
Interest-bearing bank and other borrowings	2,567,724	1,851,485
Short-term bond payable	300,000	300,000
Less: Cash and cash equivalents	(392,986)	(477,610)
Less: Pledged deposits	(119,500)	(12,900)
Net debt	2,841,397	2,220,120
Equity attributable to owners of the Company	2,452,006	2,321,202
Less: Statutory reserve fund	(167,873)	(167,873)
Total capital	2,284,133	2,153,329
Capital and net debt	5,125,530	4,373,449
Gearing ratio	55.4%	50.8%

Net debt includes interest-bearing bank and other borrowings, trade and bills payables, amounts due to related companies, accruals and other payables and short-term bond payable, less cash and cash equivalents, and pledged deposits. Capital includes equity attributable to owners of the Company less the restricted statutory reserve fund.

Loans

Amount payable in one year or less, or on demand

	As at 30/6/2013		As at 31/12/2012	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Bank loans	94,983	100,000	–	172,000
Short-term bond payable	–	300,000	–	300,000
	<u>94,983</u>	<u>400,000</u>	<u>–</u>	<u>472,000</u>

Amount payable after one year

	As at 30/6/2013		As at 31/12/2012	
	Secured	Unsecured	Secured	Unsecured
	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Bank loans	–	2,366,377	–	1,672,212
Loan from the government	–	6,364	–	7,273
	<u>–</u>	<u>2,372,741</u>	<u>–</u>	<u>1,679,485</u>

Details of guarantee

As at 30 June 2013, the Group has approximately RMB95 million short-term loan secured by pledged fixed deposits. As at 31 December 2012, the Group had no secured loans.

(III) PROSPECTS

Due to the oversupply condition in urea industry and the decline in coal prices, there is a prospect of urea selling prices moving lower which will give negative impact on China urea industry. As a result, the Company's financial performance in second half of 2013 might be affected as well. The Company will remain its leading position as one of the most cost efficient urea producers in China to weather the difficult time of the urea industry.

The construction of our plant IV is progressing in line with the construction schedule. The plant is planned to start trial operation in the third quarter of 2013 and expected to realize full utilisation in the first half of 2014.

(IV) SUPPLEMENTARY INFORMATION

1. Reconciliation between SFRSs and International Financial Reporting Standards (“IFRSs”)

For the six months ended 30 June 2013, there were no material differences between the consolidated financial statements of the Group prepared under SFRSs and IFRSs (which include all IFRS, International Accounting Standards and Interpretations).

2. Operational and Financial Risks

(i) *Market Risk*

The major market risks of the Group include changes in the average selling prices of key products, changes in the costs of raw materials (mainly coal) and fluctuations in interest and exchange rates.

(ii) *Commodity Price Risk*

The Group is also exposed to commodity price risk arising from fluctuations in product sale prices and costs of raw materials.

(iii) *Interest Rate Risk*

The major market interest rate risk that the Group is exposed to includes the Group's long-term debt obligations which are subject to floating interest rates.

(iv) *Foreign Exchange Risk*

The Group's revenue and costs are primarily denominated in RMB. Some costs may be denominated in Hong Kong dollars, United States dollars or Singapore dollars.

(v) *Inflation and Currency Risk*

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.7% in the six months ended 30 June 2013 as compared to an increase of 3.2% in the same period in 2012. Such inflation in the PRC did not have a significant effect on the Group's operating results.

(vi) *Liquidity Risk*

The Group monitors its risk exposure to shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 30 June 2013, approximately RMB495 million (31 December 2012: RMB472 million), or 17.3% (31 December 2012: 21.9%) of the Group's debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

(vii) *Gearing Risk*

The Group monitors its 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 raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2012 and 2013. The gearing ratio of the Group as at 30 June 2013 (calculated as net debt divided by total capital plus net debt) was 55.4%, representing an increase of 4.6 percentage points as compared to 31 December 2012. As at 30 June 2013, except for the pledged deposit of RMB119,500,000 (31 December 2012: RMB12,900,000), the Group had no pledge of assets.

3. Contingent Liabilities

As at 30 June 2013, the Group has no material contingent liabilities (2012: Nil).

4. Material Litigation and Arbitration

As at 30 June 2013, the Group was not involved in any material litigation or arbitration.

5. Audit Committee

The audit committee of the Company (the “**Audit Committee**”) has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The interim results for the six months ended 30 June 2013 have been reviewed by the Audit Committee.

6. Compliance with the Code on Corporate Governance Practices

The Company devotes to best practice on corporate governance, and has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”) for the six months ended 30 June 2013, except for the following deviation:

Code provision A.2.1

This code provision stipulates that the roles of chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. Mr. Liu Xingxu has been the Chairman of the Board and Chief Executive Officer since the incorporation of the Company. The Board considers such structure beneficial to the Group as the Board believes that Mr. Liu Xingxu, who has extensive experience in the industry, can provide the Company with strong and consistent leadership and visions and also allows for effective and efficient planning and implementation of business decisions and strategies. He can also ensure timeliness of information flow between the Board and management.

In addition, the Directors are of the view that the balanced composition of executive and non-executive Directors (including independent non-executive Directors) on the Board and the existence of various Board Committees (comprising all or a majority of independent Directors) in overseeing different aspects of the Company’s affairs, are adequate safeguards to ensure a balance of power and authority.

7. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuer

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules and its amendments from time to time as its own code of conduct regarding securities transaction by the Directors. The Board confirms that, having made specific enquiries with all Directors, during the six months ended 30 June 2013, all Directors have complied with the required standards of the Model Code.

8. Purchase, Sales or Redemption of the Company’s Securities

For the six months ended 30 June 2013, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the securities of the Company.

9. Employees and Remuneration Policy

As at 30 June 2013, there were 4,905 (2012: 4,043) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses and share options to eligible staff based on their performance and contributions to the Group.

10. Disclosure on the Websites of the SEHK and the Company

This announcement is published on the website of the SEHK (<http://www.hkex.com.hk>) and on the website of the Company (<http://www.chinaxlx.com.hk>).

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

Singapore, 13 August 2013

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

* *for identification purpose only*