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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)

**ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

The Board of Directors (the “**Directors**”) of China XLX Fertiliser Ltd. (the “**Company**”) announces its unaudited consolidated interim results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2014 together with the comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
	<i>Notes</i>	(Unaudited) RMB'000	(Unaudited) RMB'000
REVENUE	4	2,432,620	1,964,791
Cost of sales		(2,059,556)	(1,560,012)
Gross profit		373,064	404,779
Other income, net	4	16,349	9,681
Selling and distribution expenses		(74,379)	(30,184)
General and administrative expenses		(131,205)	(118,921)
Finance costs	5	(105,624)	(39,480)
PROFIT BEFORE TAX	6	78,205	225,875
Income tax expense	7	(15,921)	(36,142)
PROFIT FOR THE PERIOD		62,284	189,733
OTHER COMPREHENSIVE INCOME			
Available-for-sale investment:			
Change in fair value		45	2,933
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX		45	2,933
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		62,329	192,666
Profit attributable to:			
Owners of the parent		64,082	190,871
Non-controlling interest		(1,798)	(1,138)
		62,284	189,733
Total comprehensive income attributable to:			
Owners of the parent		64,127	193,804
Non-controlling interest		(1,798)	(1,138)
		62,329	192,666
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (<i>RMB cents per share</i>)	9	5.45 cents	16.23 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 2014

		30 June 2014	31 December 2013
	<i>Notes</i>	(Unaudited) RMB'000	(Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	5,537,171	4,735,403
Prepaid land lease payments	10	197,346	171,446
Goodwill		6,950	6,950
Coal mining rights	10	40,413	41,232
Available-for-sale investment	12	7,500	7,500
Deferred tax assets		8,573	8,663
Prepayments for purchases of items of plant and equipment	11	630,267	687,469
Total non-current assets		<u>6,428,220</u>	<u>5,658,663</u>
CURRENT ASSETS			
Due from a related company		5,198	1,907
Available-for-sale investment	12	8,367	8,323
Inventories	13	288,304	261,377
Trade and bills receivables	14	57,010	13,469
Prepayments	11	143,517	186,930
Deposits and other receivables		253,881	198,995
Income tax recoverable		33,547	26,446
Pledged deposits	15	329,147	148,961
Cash and cash equivalents	15	798,232	797,813
Total current assets		<u>1,917,203</u>	<u>1,644,221</u>
CURRENT LIABILITIES			
Due to related companies		4,479	–
Trade payables	16	98,913	88,171
Bills payable		588,166	260,143
Accruals and other payables		779,203	829,368
Income tax payable		–	4
Deferred grants		10,353	4,892
Short-term bond payable		–	300,000
Interest-bearing bank and other borrowings	17	543,956	134,983
Total current liabilities		<u>2,025,070</u>	<u>1,617,561</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(107,867)</u>	<u>26,660</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,320,353</u>	<u>5,685,323</u>

		30 June 2014	31 December 2013
	<i>Notes</i>	(Unaudited)	(Audited)
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	3,465,020	2,837,832
Deferred grants		35,187	33,026
Deferred tax liabilities		50,126	50,216
Other payables		3,840	398
Long-term bond payable		250,000	250,000
		<hr/>	<hr/>
Total non-current liabilities		3,804,173	3,171,472
		<hr/>	<hr/>
NET ASSETS		2,516,180	2,513,851
		<hr/> <hr/>	<hr/> <hr/>
EQUITY			
Equity attributable to owners of the parent			
Issued capital		836,671	836,671
Statutory reserve fund		205,760	199,295
Convertible bonds		329,674	322,436
Revaluation reserve		3,667	3,622
Retained profits		1,139,635	1,089,256
Proposed final dividend		–	60,000
		<hr/>	<hr/>
Non-controlling interest		2,515,407	2,511,280
		773	2,571
		<hr/>	<hr/>
Total equity		2,516,180	2,513,851
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Notes	Six months ended 30 June	
		2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Cash flows from operating activities			
Profit before tax		78,205	225,875
Adjustment for:			
Amortisation of prepaid land lease payment	6	2,215	1,921
Amortisation of coal mining rights	6	819	796
Depreciation of property, plant and equipment	6	155,060	90,401
Loss on disposal of items of property, plant and equipment	4, 6	496	1,215
Amortisation of deferred grants	4	(280)	(247)
Interest income	4	(6,897)	(5,148)
Interest expense	5	105,624	39,480
		335,242	354,293
(Increase)/decrease in inventories		(26,928)	161,631
Increase in trade and bills receivables		(59,134)	(16,823)
Decrease in prepayments		46,018	50,169
(Increase)/decrease in other receivables and deposits		(69,115)	31,447
(Increase)/decrease in due from a related company		(3,292)	1,760
Increase/(decrease) in trade and bills payables		344,294	(41,061)
Decrease in other payables and accruals		(157,026)	(231,289)
Decrease in amounts due to related companies		4,343	4,342
Cash generated from operations		414,402	314,469
Interest received		6,897	5,148
Interest paid		(105,799)	(71,293)
Income taxes paid		(17,282)	(46,156)
Government grants received		–	2,756
Net cash generated from operating activities		298,218	204,924

Six months ended 30 June

	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000

Cash flows from investing activities

Purchases of items of property, plant and equipment, and land use rights	(784,359)	(840,555)
Purchase of an available-for-sale investment	-	-
Proceeds from disposal of items of property, plant and equipment	80	533
Increase in bank pledged deposits	(180,186)	(106,600)

Net cash flows used in investing activities

	(964,465)	(946,622)
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Cash flows from financing activities

Proceeds from loans and borrowings	1,204,775	1,262,983
Repayment of loans and borrowings	(478,109)	(542,909)
Capital contribution by a non-controlling interest	-	-
Dividends paid on ordinary shares	(60,000)	(63,000)

Net cash generated from financing activities

	666,666	657,074
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Net increase/(decrease) in cash and cash equivalents

	419	(84,624)
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Cash and cash equivalents at beginning of period

	797,813	477,610
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Cash and cash equivalents at end of period

	798,232	392,986
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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 June 2014

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 listed on The Stock Exchange of Hong Kong Limited (the “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.

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 2013.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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 2014.

- Revised SFRS 27 *Separate Financial Statements*
- Revised SFRS 28 *Investments in Associates and Joint Ventures*
- SFRS 110 *Consolidated Financial Statements*
- SFRS 111 *Joint Arrangements*
- SFRS 112 *Disclosures of Interests in Other Entities*
- Amendments to SFRS 32 *Offsetting of Financial Assets and Financial Liabilities*
- Amendments to SFRS 110 *Consolidated Financial Statements*
- Amendments to SFRS 111 *Joint Arrangements*
- Amendments to SFRS 112 *Disclosures of Interest in Other Entities*
- Amendments to SFRS 27 *Separate Financial Statements*
- Amendments to SFRS 28 *Investments in Associates and Joint Ventures*
- Amendments to SFRS 110 *Consolidated Financial Statements*, SFRS 111 *Joint Arrangements* and SFRS 112 *Disclosure of Interests in Other Entities – Transition Guidance*
- Amendments to SFRS 110 *Consolidated Financial Statements*, SFRS 112 *Disclosures of Interests in Other Entities* and SFRS 27 *Separate Financial Statements – Investment Entities*
- Amendments to SFRS 36 *Recoverable Amount Disclosures for Non-financial Assets*
- Amendments to SFRS 39 *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*
- INT SFRS 121 *Levies*

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.

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 2014

	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	1,441,627	596,003	381,261	13,729	–	2,432,620
Intersegment sales	140,829	–	–	4,390	(145,219)	–
Total revenue	<u>1,582,456</u>	<u>596,003</u>	<u>381,261</u>	<u>18,119</u>	<u>(145,219)</u>	<u>2,432,620</u>
Segment profit/(loss)	186,053	93,123	92,076	1,812	–	373,064
Interest income						6,897
Unallocated other income						9,452
Unallocated expenses						(205,584)
Finance costs						(105,624)
Profit before tax						78,205
Income tax expense						(15,921)
Profit for the period						<u><u>62,284</u></u>

For the six months ended 30 June 2013

	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	1,239,573	490,436	230,713	4,069	–	1,964,791
Intersegment sales	155,328	–	–	2,304	(157,632)	–
Total revenue	<u>1,394,901</u>	<u>490,436</u>	<u>230,713</u>	<u>6,373</u>	<u>(157,632)</u>	<u>1,964,791</u>
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						<u><u>189,733</u></u>

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	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Sale of goods	2,432,620	1,964,791
	2,432,620	1,964,791
Other income		
Bank interest income	6,897	5,148
Net profit from sales of by-products	10,196	2,158
Service fee income from related parties	1,226	1,560
Amortisation of deferred grants	280	247
Penalty income	184	–
Subsidy income	4,239	–
Others	1,432	2,459
	24,454	11,572
	24,454	11,572
Other expenses		
Loss on disposal of items of property, plant and equipment	(496)	(1,215)
Exchange loss, net	(5,315)	–
Impairment loss on an available-for-sale investment	–	–
Others	(2,294)	(676)
	(8,105)	(1,891)
	(8,105)	(1,891)
Other income, net	16,349	9,681
	16,349	9,681
5. FINANCE COSTS		
	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	105,624	71,293
Interest on bank loans, overdrafts and other loans, wholly repayable after five years	–	–
Less: interest capitalised	–	(31,813)
	105,624	39,480
	105,624	39,480

6. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	2,059,556	1,560,012
Depreciation of property, plant and equipment	155,060	90,401
Amortisation of prepaid land lease payments	2,215	1,921
Amortisation of coal mining rights	819	796
Minimum lease payments under operating leases:		
Land	706	706
Buildings	1,120	240
	<u>1,826</u>	<u>946</u>
Employee benefit expenses (including directors' remuneration):		
Salaries and bonuses	144,743	120,846
Contributions to defined contribution plans	13,934	13,073
Welfare expenses	8,604	11,900
	<u>167,281</u>	<u>145,819</u>
Auditors' remuneration	743	790
Impairment loss on an available-for-sale investment	–	–
Loss on disposal of items of property, plant and equipment	496	1,215
	<u><u>496</u></u>	<u><u>1,215</u></u>

7. INCOME TAX

The Company is incorporated in Singapore and is subject to an income tax rate of 20% for the six months ended 30 June 2014 (six months ended 30 June 2013: 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% (2013: 25%). For the six months ended 30 June 2014, 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 2014 and 2013 are:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – PRC		
Charge for the period	15,921	36,142
Deferred	–	–
Total tax charge for the period	<u><u>15,921</u></u>	<u><u>36,142</u></u>

8. DIVIDEND

Final dividend of RMB60,000,000 (year ended 31 December 2012: RMB63,000,000) for the year ended 31 December 2013 was declared and paid during the six months ended 30 June 2014.

The Company did not recommend or declare any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: 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 2013: 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 2014 and 2013 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 RMB784,359,000 and RMB80,000 (six months ended 30 June 2013: RMB838,722,000 and RMB533,000), respectively.

11. PREPAYMENTS

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
NON-CURRENT		
Prepayments:		
Prepayments for purchases of items of plant and equipment	<u>630,267</u>	<u>687,469</u>
CURRENT		
Prepayments:		
Advanced deposits to suppliers	139,086	176,246
Current portion of prepaid land lease payments	4,431	3,843
Other prepayments	–	6,841
	<u>143,517</u>	<u>186,930</u>

12. AVAILABLE-FOR-SALE INVESTMENT

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (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>8,367</u>	<u>8,323</u>

The above investments in equity securities are designated as available-for-sale financial assets and have no fixed maturity or coupon rate.

The gross gain in respect of the available-for-sale investments recognised in other comprehensive income amounted to RMB45,000 for the six months period ended 30 June 2014 (six months ended 30 June 2013: RMB3,622,000) and arose from the equity investment included in current asset. The market value of the listed equity investment at the date of approval of these financial statements was approximately RMB8,367,000.

13. INVENTORIES

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Raw materials	155,244	131,755
Parts and spares	12,307	27,244
Work-in-progress	3,918	2,657
Finished goods	116,835	99,721
	<u>288,304</u>	<u>261,377</u>

14. TRADE AND BILLS RECEIVABLES

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Trade receivables	46,732	9,572
Bills receivable	10,278	3,897
	<u>57,010</u>	<u>13,469</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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 month	27,996	2,152
1 to 3 months	14,710	819
3 to 6 months	3,377	2,372
6 to 12 months	189	3,990
Over 12 months	460	239
	<u>46,732</u>	<u>9,572</u>

15. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Fixed deposits	329,147	148,961
Less: Pledged time deposits	(329,147)	(148,961)
Cash at banks and on hand	<u>798,232</u>	<u>797,813</u>
Cash and cash equivalents	<u><u>798,232</u></u>	<u><u>797,813</u></u>

As at 30 June 2014, the cash and bank balances of the Group denominated in RMB amounted to RMB788,997,000 (31 December 2013: RMB780,942,000). 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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 1 month	56,176	66,288
1 to 3 months	4,503	11,115
3 to 6 months	23,504	4,504
6 to 12 months	7,693	2,143
Over 12 months	<u>7,037</u>	<u>4,121</u>
	<u><u>98,913</u></u>	<u><u>88,171</u></u>

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 2014			31 December 2013		
	Contractual interest rate	Maturity	RMB'000 (Unaudited)	Contractual interest rate	Maturity	RMB'000 (Audited)
CURRENT						
Bank loans						
– secured	3 month libor+0.85%		183,956	6.1% to 7.1%	2014	94,983
– unsecured	5.84% to 6.15%	2015	360,000	6.1% to 7.1%	2014	40,000
			<u>543,956</u>			<u>134,983</u>
NON-CURRENT						
Bank loans						
– unsecured	3 month libor+2% to 7%	2015 to 2018	3,459,565	1.81% to 7.32%	2015 to 2018	2,831,468
Loan from the government						
– unsecured (note (b))	Floating rate at 0.3% above the market prime lending rate	2020	5,455	Floating rate at 0.3% above the market prime lending rate	2020	6,364
			<u>3,465,020</u>			<u>2,837,832</u>
			<u>4,008,976</u>			<u>2,972,815</u>
				30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000	

Analysed into:

Bank loans repayable:

Within one year or on demand	543,956	134,983
In the second year	861,370	1,240,756
In the third to fifth years, inclusive	2,598,195	1,590,712
Beyond five years	–	–
	<u>4,003,521</u>	<u>2,966,451</u>

Other borrowings repayable:

In the third to fifth years, inclusive	5,455	6,364
	<u>4,008,976</u>	<u>2,972,815</u>

Notes:

- Certain bank loans of the Group were pledged by fixed deposits.
- The loan from the government bears interest at a floating rate of 0.35% (2013: 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 did not have any capitalised interest expenses (2013: RMB31,813,000) 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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within one year	74,672	74,672
In the second to fifth years, inclusive	224,945	224,945
After five years	30,784	30,784
	<u>330,401</u>	<u>330,401</u>

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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Capital commitments:		
Contracted, but not provide for:		
Buildings	320,227	380,379
Plant and machinery	904,258	1,144,582
Coal mines	41,272	51,849
	<u>1,265,757</u>	1,576,810
Authorised, but not contracted for:		
Plant and machinery	426,014	1,344,000
	<u>1,691,771</u>	<u>2,920,810</u>
Other commitments:		
Purchases of raw materials	4,964	499
	<u>4,964</u>	<u>499</u>

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	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Sales of electricity, water and steam to:		
– Henan Shenzhou Heavy Sealing Co., Ltd.#	827	794
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#	8	42
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#	111	74
– Xinxiang Yuyuan Chemical Co., Ltd.#	367	477
– Xinxiang Xinlianxin Hotel Co., Ltd.#	118	109
Service fee income for provision of calibration and testing services to:		
– Henan Shenzhou Heavy Sealing Co., Ltd.#	3	21
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#	1	–
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#	4	6.8
– Xinxiang Yuyuan Chemical Co., Ltd.#	13	76
Purchases of raw materials and consumables from:		
– Xinxiang Xinlianxin Gas Products Co., Ltd.#	–	–
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#	11,768	10,391
Service fee expenses for provision of lifting services from:		
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#	1,773	1,685
Operating lease expenses to:		
– Henan Xinlianxin Chemicals Group Co., Ltd.	1,120	240
Service fee expenses to:		
– Xinxiang Xinlianxin Hotel Co., Ltd.#	2,387	1,714
– Xinxiang City Eight Mile Gully Resort Co., Ltd.#	255	286
Interest expense to:		
– Henan Xinlianxin Chemicals Group Co., Ltd.	–	–
	<u>–</u>	<u>–</u>

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	
	2014 (Unaudited) RMB'000	2013 (Unaudited) RMB'000
Directors’ fee	400	400
Salaries and bonuses	2,995	3,440
Contributions to defined contribution plans	99	48
	<u>–</u>	<u>–</u>
Total compensation paid to key management personnel	<u>3,494</u>	<u>3,888</u>

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 2014 (“**1H2014**”) increased by about RMB468 million or 24% from approximately RMB1,965 million in the half year ended 30 June 2013 (“**1H2013**”) to approximately RMB2,433 million in 1H2014. The increase was mainly due to the increase in sales volume of urea, compound fertiliser and methanol. However, the increase in sales volume was offset by the decrease in average selling prices of urea and compound fertiliser.

Urea

Revenue derived from the sales of urea increased by approximately RMB203 million or approximately 16% from approximately RMB1,239 million for 1H2013 to RMB1,442 million for 1H2014 mainly due to the increase in sales volume by approximately 53% resulting from the commencement of production of Plant IV. The increase was offset by the decrease in average selling price by approximately 24%.

Methanol

Revenue derived from the sales of methanol increased by approximately RMB150 million or approximately 65% from approximately RMB231 million for 1H2013 to RMB381 million for 1H2014 mainly due to the increase in average selling price and sales volume by approximately 1% and 64% respectively.

Compound fertiliser

Revenue derived from the sales of compound fertiliser increased by approximately RMB106 million or approximately 22% from approximately RMB490 million for 1H2013 to RMB596 million for 1H2014. Such increase primarily resulted from the increase in sales volume by approximately 35% in 1H2014 resulting from the expansion of the sales network.

Gross profit margin

Overall gross profit margin decreased from approximately 21% in 1H2013 to 15% in 1H2014. This was mainly due to the decrease in gross profit margin of urea.

Gross profit margin of urea decreased from approximately 26% in 1H2013 to 13% in 1H2014 due to the decrease in average selling price by approximately 24%. However, such decrease in average selling price was offset by the reduction of average cost of sales by approximately 11% due to lower coal prices.

Gross profit margin of methanol improved from approximately 6% in 1H2013 to approximately 24% in 1H2014. This was due to lower coal prices which resulted in average cost of sales being approximately 18% lower than that of 1H2013.

Despite the decrease in the average selling price of compound fertiliser by approximately 10% in 1H2014, the gross profit margin of compound fertiliser increased from approximately 15% in 1H2013 to 16% in 1H2014. This was mainly due to the reduction of average cost of sales by approximately 11%.

Other income and expenses

Other income, net increased by approximately RMB6 million from approximately RMB10 million in 1H2013 to approximately RMB16 million in 1H2014. This was mainly due to the increase in net profit from sales of by-products and subsidy income by approximately RMB8 million and RMB4 million respectively. However, the increase was partially offset by exchange loss of approximately RMB5 million.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB44 million or 146% from approximately RMB30 million in 1H2013 to RMB74 million in 1H2014. This was mainly due to the increase in transportation cost, staff costs, loading and unloading costs and traveling expenses by approximately RMB14 million, RMB13 million, RMB11 million and RMB3 million respectively. The increase in transportation cost was mainly due to the transportation cost borne by the Company for the sales of 62,600 tons of urea to Northeastern China. The Company has included the transportation cost in the selling prices of the urea. The increase in staff costs, loading and unloading costs and traveling expenses are in line with the expansion of the Group's sales networks.

General and administrative expenses

General and administrative expenses increased by approximately RMB12 million or 10% from approximately RMB119 million in 1H2013 to RMB131 million in 1H2014. The increase was mainly due to the increase in staff costs, depreciation and amortisation, environmental expenses and property tax by approximately RMB4 million, RMB4 million, RMB3 million and RMB1 million respectively. The increased general and administrative expenses are in line with the Group's expansion.

Finance costs

Finance costs increased by RMB67 million or 172% from approximately RMB39 million in 1H2013 to RMB106 million in 1H2014, which was mainly due to the increase of the interest-bearing bank and other borrowings raised in 1H2014 as compared against 1H2013 and reduction in the interest expense capitalised of approximately RMB32 million since the commencement of production of Plant IV.

Income tax expense

Income tax expense decreased by approximately RMB20 million or 56% from approximately RMB36 million in 1H2013 to RMB16 million in 1H2014 due to lower profits.

Profit for the period

The profit for the period decreased by approximately RMB128 million or 67% from approximately RMB190 million in 1H2013 to approximately RMB62 million in 1H2014. This was mainly due to the decrease in gross profit of approximately RMB32 million in 1H2014 led by the decline in the average selling prices of urea and compound fertiliser and the increase in selling and distribution expenses, general and administrative expenses and finance costs by approximately RMB44 million, RMB12 million and RMB67 million respectively. The decrease in profit for the period was partially offset by the increase in other incomes by approximately RMB6 million and the decrease in income tax expense by approximately RMB20 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 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Due to related companies	4,479	–
Trade and bills payables	687,079	348,314
Accruals and other payables	779,203	829,368
Interest-bearing bank and other borrowings	4,008,976	2,972,815
Short-term bond payable	–	300,000
Other payables	3,840	398
Long-term bond payable	250,000	250,000
Less: Cash and cash equivalents	(798,232)	(797,813)
Less: Pledged deposits	(329,147)	(148,961)
Net debt	<u>4,606,198</u>	<u>3,754,121</u>
Equity attributable to owners of the Company	2,515,407	2,511,280
Less: Statutory reserve fund	(205,760)	(199,295)
Total capital	<u>2,309,647</u>	<u>2,311,985</u>
Capital and net debt	<u>6,915,845</u>	<u>6,066,106</u>
Gearing ratio	<u>66.6%</u>	<u>61.9%</u>

Net debt includes interest-bearing bank and other borrowings, trade and bills payables, amounts due to related companies, accruals and other payables, short-term bond payable and long-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 30/6/2014		As at 31/12/2013	
	Secured <i>RMB'000</i> (Unaudited)	Unsecured <i>RMB'000</i> (Unaudited)	Secured <i>RMB'000</i> (Audited)	Unsecured <i>RMB'000</i> (Audited)
Bank loans	183,956	360,000	94,983	40,000
Short-term bond payable	—	—	—	300,000
	183,956	360,000	94,983	340,000

Amount payable after one year

	As at 30/6/2014		As at 31/12/2013	
	Secured <i>RMB'000</i> (Unaudited)	Unsecured <i>RMB'000</i> (Unaudited)	Secured <i>RMB'000</i> (Audited)	Unsecured <i>RMB'000</i> (Audited)
Bank loans	—	3,459,565	—	2,831,468
Long-term bond payable	—	250,000	—	250,000
Loan from the government	—	5,455	—	6,364
	—	3,715,020	—	3,087,832

Details of guarantee

As at 30 June 2014, the Group has approximately RMB184 million (31 December 2013: RMB95 million) short-term loans secured by pledged fixed deposits.

(III) PROSPECTS

In 1H2014, the urea industry in the PRC was at its trough. According to the China Nitrogen Fertiliser Industry Association, more than half of the peers were loss-making. Despite of such fact, net profit of approximately RMB62 million was recorded by the Group.

Nevertheless, the Group expects the urea industry to remain stable amid industry consolidation and favourable government policies. Going forward, we expect urea selling prices to improved with the lower export tariffs window that begins from July 2014 to October 2014 and the increase in domestic natural gas prices.

The Plant IV has started production and achieved a lower production cost compared to Plant I, II and III. The annual urea production capacity of the Group has reached approximately 2.1 million tons, and the new technology adopted by Plant IV will enable the Group to further improve cost efficiency and strengthen the Group's leading position in the industry in China.

The Group has created a product differentiation strategy to develop high-efficiency fertilisers. Recently, the Group has developed control release urea, control release compound fertiliser and water soluble compound fertiliser. The sales of such high-efficiency fertilisers would enable the Group to gain better returns. The Group has received approval from local authorities to establish a national class nitrogen fertiliser research centre, which would support the development and implement of new products.

The construction of the production plants under the Xinjiang Project is scheduled to complete in the second half of 2015. Upon commencement of production in the Xinjiang Project, the annual urea production capacity of the Group will reach 2.6 million tons. The Xinjiang Project will extend the value chain of the Group and the Group's self-owned coal mine would further lower the production cost and strengthen the Group's ability to resist fluctuations in the prices of coal and other market risks.

(IV) SUPPLEMENTARY INFORMATION

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

For the six months ended 30 June 2014, 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 2.3% in the six months ended 30 June 2014 as compared to an increase of 2.7% in the same period in 2013. 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 2014, approximately RMB544 million (31 December 2013: RMB435 million), or 12.8% (31 December 2013: 12.3%) 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 2013 and 2014. The gearing ratio of the Group as at 30 June 2014 (calculated as net debt divided by total capital plus net debt) was 66.6%, representing an increase of 4.7 percentage points as compared to 31 December 2013. As at 30 June 2014, except for the pledged deposit of RMB329,147,000 (31 December 2013: RMB148,961,000), the Group had no pledge of assets.

3. Contingent Liabilities

As at 30 June 2014, the Group has no material contingent liabilities (2013: Nil).

4. Material Litigation and Arbitration

As at 30 June 2014, 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 2014 have been reviewed by the Audit Committee.

6. Compliance with the Corporate Governance Code

The Company recognises the importance of good corporate governance practices, and has complied with the code provisions of the Corporate Governance Code 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 2014, except for code provision A.2.1.

Code provision A.2.1 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 of Directors (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 Issuers

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 2014, 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 2014, 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 2014, there were 5,470 (2013: 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

29 August 2014

As at the date of this 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*