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## CONNECTED TRANSACTIONS

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### CONNECTED TRANSACTIONS

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

#### Connected persons

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

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

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

##### *XLX Chem Group*

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

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

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### Continuing connected transactions between the Group and XLX Chem Group

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

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

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

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

#### **A. Calibration and Testing Services Framework Agreement**

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

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

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

#### **B. Lifting Services Framework Agreement**

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

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

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

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

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

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

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

#### **A. Utilities Supply Framework Agreement**

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

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

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## CONNECTED TRANSACTIONS

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### *Pricing basis*

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

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

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

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

### *Historical figures*

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

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## CONNECTED TRANSACTIONS

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### *Annual caps*

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

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

### ***B. Equipment Purchase Framework Agreement***

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

### *Pricing basis*

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

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

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

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

### *Historical figures*

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

### *Annual Caps*

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

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

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### Confirmation from our Directors

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

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

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

### Confirmation from the Sponsor

The Sponsor considers that:

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