

Annual Report 2009

For a Better Tomorrow

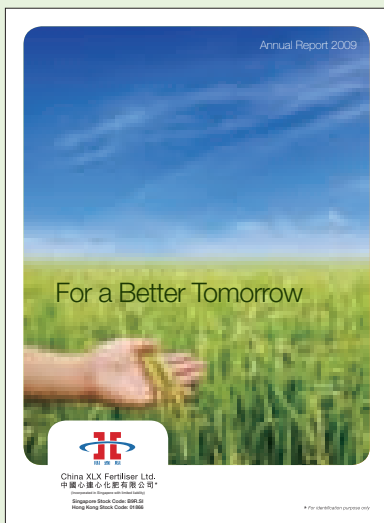


China XLX Fertiliser Ltd.
中國心連心化肥有限公司*

(Incorporated in Singapore with limited liability)

Singapore Stock Code: B9R.SI
Hong Kong Stock Code: 01866

* For identification purpose only



Design Concept

Instrumental and vital to the nurturing of growth and ensuring a good harvest, this annual report concept shows the important role China XLX Fertiliser Ltd. ("China XLX" or the "Company") plays in ensuring success for its customers. From the first stage of germination to the final stage of harvesting, the use of the Company's quality products enables the realization of growth and success. This focused vision is reflective of the Company's mission and corporate philosophy. The design also reflects the core competences of the Company which are paving the way to a greater success of China XLX.

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STAY FOCUSED TO EMBRACE CHALLENGES

With a solid foundation and a consistent strategy, we are well positioned to seize the future opportunities.



Mr. Liu Xingxu
Chairman and Chief Executive Officer

We shall commit to maintaining an optimal balance between operation scale and cost efficiency, and we shall also intensify our effect to achieve our ultimate goal which is to become the most profitable coal-based urea producer in the PRC and the industry leader.

A Letter to Investors

Dear Valued Investors,

The year of 2009 (the “Year”) was of particular significance to China XLX Fertiliser Ltd. (“China XLX” or the “Company” or “we”, together with its subsidiary referred as the “Group”). China XLX achieved a key milestone as we completed the dual primary listing on the main board of The Stock Exchange of Hong Kong Limited, as well as our fertiliser business has been operating for 40 years.

In the Year, the global financial turmoil caused more challenges and difficulties to the fertiliser industry, particularly the price of the fertiliser products was more volatile than ever. Notwithstanding, China XLX maintained a total revenue growth in such difficult times though we have not recorded the splendid results in the Year as we usually did in the past, as a result of the efforts of our management and employees as well as our solid foundation established in the last couple of years. Being one of the most cost efficient urea producers in the People’s Republic of China (the “PRC”), China XLX still presented a decent net profit despite many urea producers were making losses. In the fourth quarter of the Year, our gross profit margin experienced a strong rebound from the first three quarters.

In addition, we have attached great importance to investor relations and corporate governance in order to ensure accuracy and efficiency of information disclosure. During the Year, our management has proactively participated in numerous investor conferences and various investor relations events including results presentation, one-on-one meetings and non-deal road shows. We also maintained frequent communications with investors via the “Investor Relations” at the Group’s website and webcasting, etc, and we built close relationships with local communities and farmers, participated in public activities and promoted energy-saving and environmental friendly means such as zero emissions of waste water. I would also like to draw your attention to the section headed “Corporate Social Responsibility” in this annual report to share our joy and pride brought by our participation in many community activities and environment protection projects.

As one of the leading coal-based urea producers in the PRC, we enjoy the competitive advantages in terms of production capacity, cost efficiency, strategic operation location, abundant water resources, advanced equipment and cutting edge production techniques. Looking forward, we believe that with the strong endorsement from the PRC government, certain stimulus policies will be implemented for agriculture industry as well as the fertiliser industry, which we will embrace this opportunity to expand our fertiliser business. Furthermore, with the support of our farsighted and outstanding management team, it will lead the Group to the glamorous future. We shall commit to maintaining an optimal balance between operation scale and cost efficiency, and we shall also intensify our effect to achieve our ultimate goal which is to become the most profitable coal-based urea producer in the PRC and the industry leader. We strongly believe that by our perseverance, hard work and strengthening our core business, the Group will absolutely create a better tomorrow.



Liu Xingxu

Chairman of the Board

23 March 2010

Company Profile

The Group is principally engaged in manufacturing, sales and trading of urea, compound fertiliser and methanol. Currently, the estimated annual production capacity of urea, compound fertiliser and methanol are approximately 1.25 million tons, 600,000 tons and 200,000 tons respectively.

Our Key Competitive Advantages:



China XLX Fertiliser Ltd. ("**China XLX**", together with its subsidiary referred as the "**Group**") was incorporated with limited liability on 17 July 2006 in Singapore under the Companies Act (Chapter 50) of Singapore with the registered office at 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721. The Group's headquarters and principal place of business is located in Xinxiang Economic and Technology Development Zone, Henan Province of the People's Republic of China (the "**PRC**"). The Group is one of the largest and most cost-efficient coal-based urea producers in the PRC. China XLX aims to become the most profitable coal-based urea producer in the PRC. The principal activities of its subsidiary, namely Henan Xinlianxin Fertiliser Co., Ltd., are manufacturing, sales and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution. Currently, the estimated annual production capacity of urea, compound fertiliser and methanol are approximately 1.25 million tons, 600,000 tons and 200,000 tons respectively. Urea, the major product of the Group, attributed approximately 73.3% of the total revenue of the Group in 2009. China XLX has been listed on the main board of Singapore Exchange Securities Trading Limited since 20 June 2007 with stock code of "B9R.SI" and the main board of The Hong Kong Stock Exchange Limited since 8 December 2009 with stock code "01866".

Corporate Information

BOARD

Executive Directors

LIU Xingxu (*Chairman & Chief Executive Officer*)

YAN Yunhua (*Chief Financial Officer*)

LI Buwen

Independent Non-executive Directors

ONG Kian Guan

(*Lead Independent Non-executive Director*)

LI Shengxiao

ONG Wei Jin

COMMITTEE MEMBER

Audit Committee

ONG Kian Guan (*Chairman*)

LI Shengxiao

ONG Wei Jin

Remuneration Committee

ONG Wei Jin (*Chairman*)

ONG Kian Guan

LI Shengxiao

Nomination Committee

LI Shengxiao (*Chairman*)

ONG Wei Jin

LIU Xingxu

AUTHORIZED REPRESENTATIVES

YAN Yunhua

WONG Wai Han

JOINT COMPANY SECRETARIES

CHEAH Soon Ann Jeremy

FOO Soon Soo

WONG Wai Han

COMPLIANCE ADVISOR

First Shanghai Capital Ltd.

19/F, Wing On House

71 Des Voeux Road Central, Hong Kong

AUDITORS

Ernst & Young LLP

One Raffles Quay

North Tower, Level 18

Singapore 048583

Partner-in-charge: Max Loh Khum Whai

(Since financial year ended 31 December 2006)

LEGAL ADVISOR TO THE GROUP

Li & Partners (Hong Kong)

Haihua Yongtai Law Firm (China)

Shook Lin & Bok LLP (Singapore)

PRINCIPAL BANKERS

China Construction Bank

Bank of China

Industrial & Commercial Bank of China

Bank of Communications

Citic Bank

HSBC

Standard Chartered Bank

REGISTERED OFFICE

333 North Bridge Road

#08-00 KH KEA Building

Singapore 188721

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS

Xinxiang Economic and Technology Development Zone
(Xiaoji Town)

Henan Province

PRC 453731

STOCK CODE

Singapore Stock Code: B9R.SI

Hong Kong Stock Code: 01866

CORPORATE WEBSITE

<http://www.chinaxlx.com.sg>

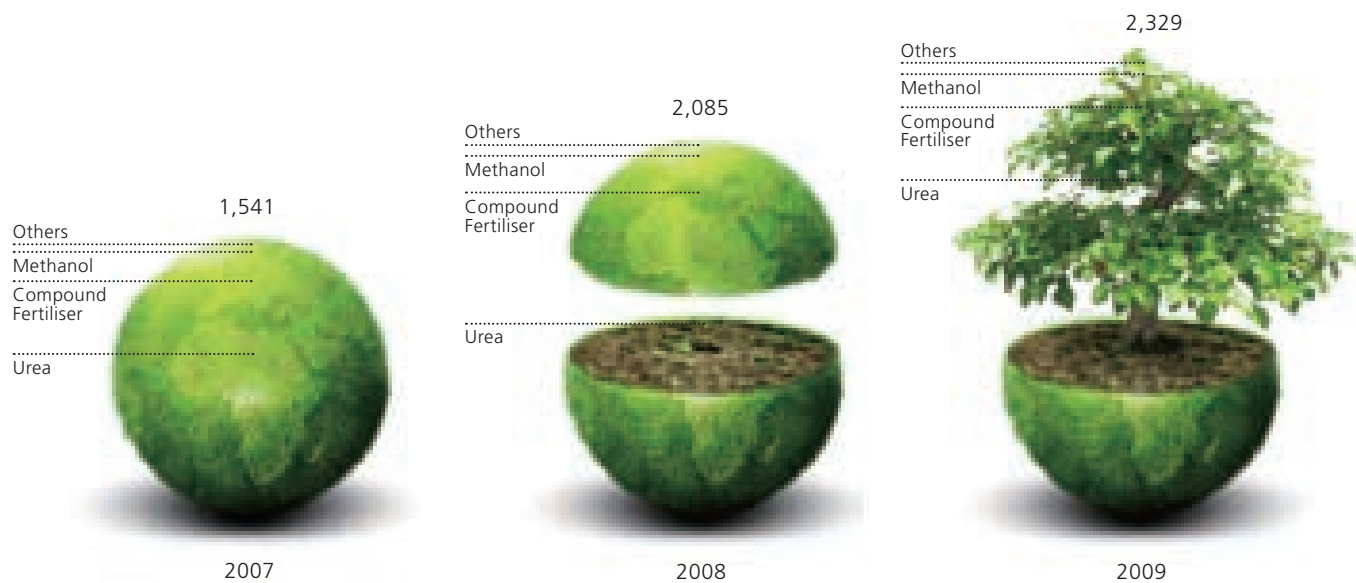
Financial Highlights

OVERALL FINANCIAL RESULTS OF 2009

(RMB million)	FY2008	FY2009	Change YoY (%)
Revenue	2,085	2,329	12
Cost of sales	(1,603)	(2,014)	26
Gross profit	482	315	(35)
PBT	350	151	(57)
Tax	(18)	(32)	78
PAT	332	119	(64)

REVENUE KEEPS STEADY GROWTH

RMB million



Financial Highlights

Being one of the most cost efficient urea producers in China, China XLX still presented a net profit despite many urea producers were making losses in 2009.

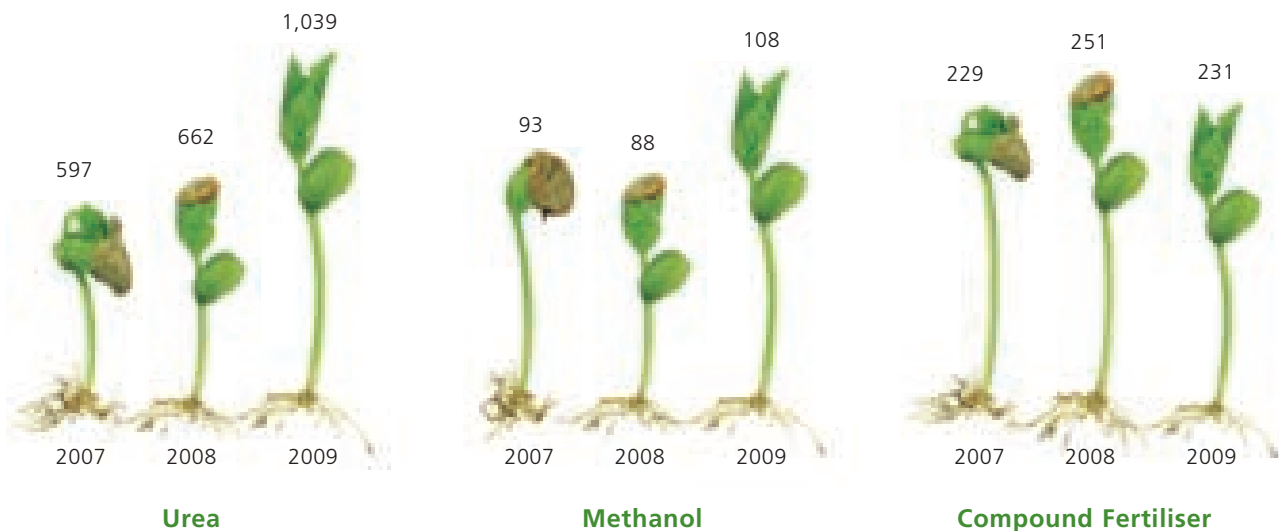


REVENUE BREAKDOWN BY SEGMENT



SALES VOLUME BREAKDOWN BY SEGMENT

'000 tons



Soild Foundation



Our headquarters is located at Henan, which is the major market of the Group and the most populous and largest agricultural province in the PRC.

Zhengzhou is 70 kilometers away from our production base, which is the transportation hub in the PRC.

Our production base is also close to Yellow River with abundant water resources.



Major Milestones & Events in 40 Years

1970

Xinxiang Factory was established with 3,000 tons of annual capacity of synthetic ammonia, which was the start of the Group's business

1974

Xinxiang Factory expanded annual capacity of synthetic ammonia to 5,000 tons

1994

Ammonia bicarbonate changed to urea production

1997

Annual production capacity of urea increased to 100,000 tons

1995

Urea production lines completed with annual capacity of 60,000 tons

1999

1st self-owned power generation system completed

2000

Compound fertiliser production line with annual capacity of 100,000 tons commenced production

2002

Annual capacity of urea, compound fertiliser and methanol reached 300,000 tons, 200,000 tons and 50,000 tons respectively

2005

Additional compound fertiliser production line with annual capacity of 100,000 tons completed

2007

China XLX was listed on Singapore Stock Exchange to become the 1st Singapore listed Chinese fertiliser company

2008

- Rewarded Top 50 overseas listed enterprises in the PRC
- Plant III commenced construction

2006

- XLX Chem restructured to establish a wholly-foreign-owned enterprise, Henan XLX
- Plant II commenced operation

2009

- Railway infrastructure project commenced construction
- Plant III commenced trial production. The total capacity of urea reached 1.25 million tons
- Successful listing on Hong Kong Stock Exchange to become the only fertiliser company to be dual listed on both Singapore and Hong Kong Stock Exchanges

2003

Privatization of Xinxiang Factory completed, Henan XLX Chemical Co., Ltd ("XLX Chem") was established as a private owned enterprise

Major Milestones & Events in 2009

February

Mr. ZHANG Dejiang, Vice Premier of the State Council, visited China XLX

April

The 3rd urea production line started trial production

August

The new compound fertiliser production line commenced operation

A strategic cooperation agreement with Henan Jiaozuo Coal Group was signed

Cooperation with Chinese Academy of Science to develop slow release compound fertiliser

September

40th Anniversary Ceremony of business operation

March

Railway system commenced construction

June

AAA Credit Evaluation by China Nitrogen Fertiliser Industry Association ("CNFIA")

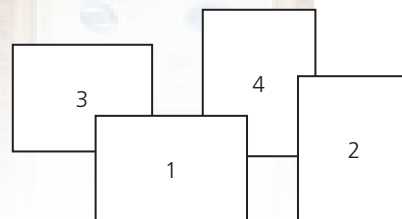
December

Dual primary listing on the Stock Exchange of Hong Kong Limited



AWARDS OBTAINED IN 2009

1. AAA Credit Evaluation by CNFIA
2. Certificate of Environmental Management System: GB/T 24001-2008 idt ISO 14001:2008
3. Star private enterprise in Henan Province
4. Top 10 fertiliser enterprise in Henan Province in 2009



Energized Growth



We are the largest urea producer in Henan and the 4th largest coal-based urea producer in terms of production capacity in the PRC*.

Upstream side: strategic alliance with Henan Jiaozuo Coal Group, the largest coal mine group in Henan to ensure a stable supply of high quality anthracite coal. Downstream side: strategic cooperation with Sinofert Holdings Limited (stock code: 00297.HK), the largest fertiliser distributor in the PRC as well as the third largest shareholder of the Group to facilitate distribution of end products and enhance the agrochemical service system.

* Source: Industry report titled "China Fertiliser and Methanol Industry Report" prepared by China National Chemical Information Centre, an independent third party, issued on 20 November 2009.



Chairman's Statement

Dear Shareholders,

On behalf of the Board of Directors (the "Board") of China XLX Fertiliser Ltd. ("China XLX" or the "Company"), I am pleased to present the audited financial statements of the Company and its subsidiary (collectively, the "Group") for the financial year ended 31 December 2009 to the shareholders of the Company (the "Shareholders").



FINAL RESULTS

Achieving Revenue Growth

The construction of our third production plant (the "Production Plant III") completed in April 2009 and we immediately started trial production, which increased our urea aggregate production capacity from approximately 720,000 tons to approximately 1,250,000 tons per annum, and improved our ranking from the 6th largest to the 4th largest coal-based urea producer in the PRC in terms of production capacity*. The increase in urea production capacity helped to increase our urea sales volume by 57%. Hence, despite the decrease in urea average selling prices by about 7%, the Group's total revenue was able to still increase by 12%.

Achieving Decent Profits

China XLX was positioned as the 4th most cost-efficient urea producer in the PRC due to its lower coal transportation cost and resource efficiency*. China XLX's cost is about 17% lower than the average urea producers in the PRC. This cost efficiency enabled China XLX to therefore still report decent profits in the year of 2009. We have always believed in the necessity to be cost-efficient as it is difficult to have product differentiation for urea and pricing power in the PRC. Hence, we worked towards lowering our own cost with the help of better technology, proximity to coal mines, close relationship with our customers and distributors and better management practices.

DIVIDENDS

The Board proposed to issue a final dividend of SGD0.6 cent per share for the year ended 31 December 2009 (2008: SGD1.6 cents) on or around 27 May 2010 to the shareholders whose names appear on the Company's register of shareholders on 11 May 2010. The dividend payout ratio was 24.5% of the after-tax profit.

* Source: Industry report titled "China Fertiliser and Methanol Industry Report" prepared by China National Chemical Information Centre, an independent third party, issued on 20 November 2009.



DIVIDEND PAYOUT RATIO

At the time of its listing on the Singapore Exchange Securities Trading Limited, the Company made an undertaking to its shareholders to maintain a dividend payout ratio of no less than 20% of the annual net profit attributable to shareholders for each of the three years after the listing. The Company has been able to honor its promise for the past three years and the dividend payout ratio for the year ended 31 December 2009 was 24.5%.

PRODUCTION CAPACITY AND OPERATING CONDITIONS

Urea

After the commencement of trial operation of Production Plant III in April 2009, the annual urea production capacity increased from approximately 720,000 tons to approximately 1,250,000 tons. From the perspective of the whole industry, the oversupply situation of urea production capacity in China has been increasingly severe. However, the export of urea showed no significant improvement, which led to the decrease in the average sales price of urea in 2009 compared to 2008. Besides, the price decline period during the off-peak season lasted longer than the historical seasons, causing the sales price of urea to reach a record low of approximately RMB1,480 per ton during the third quarter of 2009. Accordingly, the Group's profitability and results of operation encountered a significant impact from the aforesaid record-low price which created higher pressure on the Group's operating conditions. On the other hand, taking into account: (i) the continuous and increasing efforts made by the PRC government continuously focusing on the areas of agriculture, farmers and rural areas; (ii) the increase in the lowest purchase price of grain; (iii) the improvement in the yield of other agricultural products; (iv) a continuous increase in farmers' income; and (v) the relaxation of export tariff policy, the demand for urea was able to maintain its growth momentum. Meanwhile, the surge in the prices of natural gas and industrial electricity also increased the production cost of urea, causing the average sales price of urea to bounce back from the bottom since the beginning of the fourth quarter. The recovery of the sales price of urea was the major cause of improvement for the results of the Group in the fourth quarter of 2009.

Being one of the largest and most cost-effective coal-based urea producers in China, China XLX has established its own power-generating equipment to successfully minimize the adverse impacts brought by power rationing initiatives. In 2009, the Group's capacity utilization rate maintained at over 95%. In addition, the Group's power consumption per each ton of urea produced was approximately 20% lower than that of other industry players. The Group was in a leading position in terms of the coal consumption per each ton of urea produced, which was approximately 650kg per ton and approximately 23% lower than the industry average. The above enables the Group's production cost competitiveness surpassed its competitors in the industry. Despite the general increase in the prices of coal and industrial electricity in the industry which created an impact on the Group's operations, such impact is relatively insignificant as it was offset by the Group's cost competitiveness. On the contrary, the increase in the prices of coal and industrial electricity price could assist in phasing out obsolete production capacities and enhance the integration process of the industry in the long run.

Compound Fertiliser

Our production capacity of compound fertiliser was doubled to approximately 600,000 tons in 2009 from approximately 300,000 tons in 2008. The profit margin of compound fertiliser was impacted by high cost inventories relating to the storage of approximately 13,000 tons of mono-ammonium phosphate carried forward from 2008, and we expect that the future profit margin should not be affected by such inventory loss.

Methanol

In 2009, the Group's production capacity of methanol was also doubled to approximately 200,000 tons. Following (i) the increase in the price of natural gas; (ii) the flourishing of the downstream products of methanol; and (iii) the recovery of the real estate sector and other industries, the price of methanol began to increase since the fourth quarter of 2009. Taking into account the above and the policy regarding the level of composition of methanol in gasoline promulgated by the PRC government, the demand for methanol is expected to be improved in the future. Despite the loss derived from methanol sector for the year of 2009, the methanol business became profitable in the fourth quarter of the same year.

DEVELOPMENT STRATEGIES

We are dedicated to focusing on "Coal Chemical" and cost control to strengthen urea production, as well as our core business to take the leading position in the marketplace. Going forward, we will expand our existing product portfolio to other coal chemical products with advanced technologies.

1. **Strengthen core business:** to invest on additional urea production lines to adopt advanced Coal Gasification Process Technology, and thus expanding our production capacity of urea, compound fertiliser and methanol in the next three to five years.

Chairman's Statement

2. **Increase product diversity:** to develop new fertiliser products such as slow-release urea and compound fertiliser, granular urea etc according to market demand; and
3. **Expand downstream products:** to utilise advanced technologies to expand our existing product portfolio to downstream application productions of methanol in line with the capacity increase of methanol, which is to extend our value chain and create more value added products.

CORPORATE GOVERNANCE

With its goal to serve the best interest of its shareholders, the Board has all along strived to enhance the standard of corporate governance and to develop a standardised, highly-effective and scientific corporate governance mechanism. The Company held four regular board meetings in the year of 2009 to review and approve matters including the quarterly reports, interim report, annual report, dividend payout ratio and the development strategies of the Group. The Board also reviewed the connected transactions and relevant issues through non-regular meetings. The Audit Committee, the Remuneration Committee and the Nomination Committee have exercised and performed the rights and duties conferred to them by the Board with a view of raising the standards of the Group's internal control, optimising remuneration incentives and perfecting the Group's governance structure.

INVESTOR RELATIONS

The Group has highly valued its relationship with the investors and aimed at providing the latest information in respect of the Group's operations and business development to its shareholders and potential investors which enables them to understand all necessary information in a timely manner and to make informed investment decisions. The Group communicates with its investors through different channels. For instance, the Group's management holds one-on-one meetings with institutional investors, attends luncheons and takes part in large investors' conferences regularly.

PROSPECTS

The Directors are more optimistic about the prospects for 2010 as compared to 2009. This is partly because certain one off costs incurred in the year of 2009 are not expected to be repeated in 2010. These include the Company's Hong Kong listing costs of approximately RMB20 million, the ramp up cost of approximately RMB12 million in our Production Plant III and the high cost inventories brought over from 2008 which affected the 2009 compound fertiliser margin.

Chairman's Statement

Methanol made losses in 2009 due to decline in average selling prices led by weak demand in downstream products. We, however, expect better outlook for methanol as it is expected that possible economic recovery would boost demand in the construction industry which is one of the main users of methanol. The legalizing of methanol used as a fuel additive should also boost demand.

Domestic oversupply of urea might continue to persist throughout 2010. But we noted the PRC government's efforts to support the agriculture sector by pledging to increase subsidies to farmers in 2010, and the PRC government had reiterated its intention several times that it will increase natural gas prices. We expect this would help to provide support for sales prices of urea, for the reason that many industry players believe that this may increase the gas-based urea producer's costs. This will not affect the Group's costs as the Group is coal-based.

While the Group profitability will continue to be affected by any industry risks, the Company has so far proven itself as a cost-leader amongst coal-based producers and being able to maintain its high utilisation rates.

The Group also endeavors to strengthen our relationship with our upstream and downstream stakeholders. Sinofer Holdings Limited (00297.HK) via its wholly owned subsidiary. Currently holds approximately 4.99% shareholding in our Group and in 2007 signed a 5-year sales agreement. In 2009, we entered into a 3-year purchase agreement with Henan Jiazuo Coal Group. The Group is confident that the relationship that we have forged with our upstream and downstream stakeholders will be an asset to the Group especially amidst industry consolidation.

APPRECIATION

The Group's achievements are credited to the long term support and trust of our shareholders. On behalf of the Board, I would like to take the opportunity to extend my heartfelt gratitude to all shareholders, the Company's management and all staff members, the Company's customers as well as our friends from all sectors who are interested in the development of the Group. Upon the dual primary listing on The Hong Kong Stock Exchange Limited, we hope that China XLX will continue to secure the attention and strong support from our shareholders. Also, the Group hopes to see its management and all staff members embrace every challenge, uphold the principle of cost effectiveness and give full play to the competitive edges of the Group, so as to reward its customers, staff and society with the best results, thereby creating better value for the shareholders.

LIU Xingxu

Chairman of the Board

23 March 2009

Corporate Social Responsibility

As the only dual listed fertiliser company on both Hong Kong Stock Exchange and Singapore Stock Exchange, China XLX not only make efforts to ensure profitability, but also actively fulfill the right corporate social responsibilities (“**CSR**”) in the best interest of our shareholders, employees, customers, business partners and society at large. The Group committed to building up strong credibility among suppliers, customers and end users, minimizing the pollutant emissions and energy consumption in the production process, helping improve the teaching facilities in poverty-stricken areas, etc. As a result, China XLX will continue to enhance our social and environmental performance.

ENVIRONMENTAL PROTECTION AND SUSTAINABLE DEVELOPMENT

China XLX has formulated a series of regulation policies to improve our environmental management and has implemented various eco-friendly projects. In 2009, the Group has totally invested approximately RMB30,000,000 on environment protection practices including adoption and upgrade of advanced technologies and facilities. Over 20 sets of pollution treatment facilities have been built up within its production plant to realize zero-emission of wastewater in nitrogen fertiliser industry.

As China XLX takes the issue of environmental protection seriously, the Group actively promotes the clean production and recycling economy in nitrogen fertiliser industry to optimize the energy-saving and emission-reduction and strengthen the research & development of waste treatment technologies and application. As a result, the Group has been awarded *National Clean Chemical Production Plant* which is the highest recognition in environment protection and also obtained the ISO14001 certification.

PUBLIC-SPIRITED PASSION AND SERVICES TO LOCAL COMMUNITY

China XLX honors integrity in business operations and lawful and faithful tax-paying, which is the philosophy of social responsibility. In 2009, the Group has paid approximately RMB48,140,000 taxes in total.

China XLX is also keen to support the local communities in which it operates through various channels such like eco-friendly, educational, cultural activities. The Group is dedicated to keeping heart-felt sincerity and passion to contribute to society. In 2009, the Group donated RMB100,000 to Federation of Trade Unions in Xinxiang County, RMB30,000 to the Elderly Nursing Home in Xinxiang County and 1,000kg flour, 1,000kg rice and 100 buckets of edible oil to Yinianyuan Elderly House in Xinxiang County respectively.



Prosperous Future



China XLX is the 4th most cost efficient coal-based urea producer in the PRC, and the most cost efficient urea producer in Henan Province of the PRC*



* Source: Industry report titled "China Fertiliser and Methanol Industry Report" prepared by China National Chemical Information Centre, an independent third party, issued on 20 November 2009.





(I) BUSINESS REVIEW

2009 was a year full of challenges to the Group and the fertiliser industry. The third production plant of the Group (the “**Production Plant III**”) commenced its trial operation in April 2009. Upon its commencement of full operation by the end of 2009, the Group’s total annual production capacity of urea increased to approximately 1,250,000 tons, while the total annual production capacity of compound fertiliser and methanol increased to approximately 600,000 tons and 200,000 tons respectively. With our economy of scale, the Group’s products can be produced at a lower cost per unit and enjoy favourable terms of sales and purchases. On the other hand, the international financial crisis dampened the fertiliser consumption and the volatility of the prices of agricultural products substantially affected the demand for fertilisers.

Prospects

The Directors are more optimistic about the prospects for 2010 as compared to 2009. This is partly because certain one-off costs incurred for the year ended 31 December 2009 are not expected to be incurred in 2010. The costs include the Company’s expenses incurred for the listing on The Stock Exchange of Hong Kong Limited of approximately RMB20 million, the ramp up cost of approximately RMB12 million in the Group’s third plant and the high cost inventories brought over from 2008 which affected the compound fertiliser margin for the year ended 31 December 2009.

Methanol made losses for the year ended 31 December 2009 due to decline in average selling prices led by weak demand in downstream products. The Group, however, expects a better outlook for methanol due to the possible economic recovery which would boost the demand in the construction industry, being one of the main users of methanol. The acceptance of methanol used as a fuel additive should also boost demand for the Group’s products.



Domestic oversupply of urea might persist throughout 2010. But the Group noted the PRC government's efforts to support the agriculture sector by pledging to increase subsidies to farmers in 2010. Looking ahead, the Group will divert more resources on expanding its market shares in the domestic market of urea and compound fertiliser, and will seize the opportunities to benefit from the growth in domestic demand stimulated by the PRC government's policies.

(II) FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2009 increased by approximately RMB244.7 million or approximately 11.7% from approximately RMB2,084.9 million for the year ended 31 December 2008 to approximately RMB2,329.6 million for the year ended 31 December 2009. The increase was mainly due to the increase in sales quantity and production volume of urea led by the commencement of the Production Plant III which increased the urea aggregate annual production capacity from approximately 720,000 tons to approximately 1,250,000 tons. The increase in revenue was partially offset by the decrease in revenue for the sales of methanol and compound fertiliser. The Group had reduced the sales mix of methanol in 2009 as it was loss-making. Revenue derived from compound fertiliser declined due to the decision to sell more urea than compound fertiliser resulting from a reduction in the average selling price of compound fertiliser by approximately 32.8% in 2009.



Urea

Revenue derived from the sales of urea increased by approximately RMB551.2 million or approximately 47.7% from approximately RMB1,155.5 million for the year ended 31 December 2008 to approximately RMB1,706.7 million for the year ended 31 December 2009. Such increase was mainly due to the increase in annual production capacity of urea to approximately 1,250,000 tons upon the commencement of trial operation of Production Plant III in April 2009 and hence the Group produced and sold more urea in 2009.

Compound fertiliser

Revenue derived from the sales of compound fertiliser decreased by approximately RMB270.1 million or approximately 38.1% from approximately RMB708.3 million for the year ended 31 December 2008 to RMB438.2 million for the year ended 31 December 2009. Such decrease primarily resulted from the decrease in the average selling price of compound fertiliser and we sold less compound fertiliser in 2009.

Methanol

Revenue derived from the sales of methanol decreased by approximately RMB38.9 million or approximately 18.1% from approximately RMB214.8 million for the year ended 31 December 2008 to RMB175.9 million for the year ended 31 December 2009. Such decrease was mainly due to the decrease in average selling price of the methanol in 2009.



Profitability

Overall gross profit margin declined from approximately 23.1% for the year ended 31 December 2008 to approximately 13.5% for the year ended 31 December 2009 due to the decrease in gross profit margins of urea, methanol and compound fertiliser.

Urea

Gross profit margin for urea decreased from approximately 23.3% for the year ended 31 December 2008 to approximately 19.7% for the year ended 31 December 2009. This was primarily due to decrease in average selling price of urea in 2009 by approximately 6.6% led by the domestic oversupply condition. The gross margin for urea was also affected by the ramp up cost of the Production Plant III which commenced trial production in April 2009.

Compound fertiliser

Gross profit margin for compound fertiliser declined from approximately 24.5% for the year ended 31 December 2008 to approximately 2.2% for the year ended 31 December 2009. This was mainly due to decline in average selling prices of compound fertiliser in 2009 while our costs remained high due to consumption of high cost inventories purchased previously.

Methanol

Gross profit margin for methanol declined significantly from approximately 19.7% for the year ended 31 December 2008 to gross loss margin of approximately 15.2% for the year ended 31 December 2009. This was due to lower domestic average selling prices led by lower oil prices, weaker demand in dimethyl ether, construction, automotive and other methanol's downstream industries.



Other Income and gains

Other income and gains decreased by approximately RMB2.0 million or approximately 17.1% from approximately RMB13.7 million for the year ended 31 December 2008 to approximately RMB11.7 million for the year ended 31 December 2009. Such decrease was primarily due to the decrease in bank interest income and sales of by-products in 2009.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB3.8 million or approximately 18.4% from approximately RMB20.7 million for the year ended 31 December 2008 to approximately RMB16.9 million for the year ended 31 December 2009. Such decrease was mainly due to the decrease in transportation costs from decreased sales of compound fertiliser in 2009.

General and administration expenses

General and administration expenses increased by approximately RMB19.2 million or approximately 21.0% from approximately RMB91.3 million for the year ended 31 December 2008 to approximately RMB110.5 million for the year ended 31 December 2009. Such increase was mainly due to the expenses for dual primary listing application in Hong Kong, increase in advertising expenses and fees for valuation of land in 2009.

Finance costs

Finance costs increased by approximately RMB63.3 million or approximately 32.5% from approximately RMB91.3 million for the year ended 31 December 2008 to approximately RMB154.6 million for the year ended 31 December 2009, which was mainly due to the increase in interest on the bank loans.



Taxation

Tax expenses increased by approximately RMB14.2 million or by approximately 78.5% from approximately RMB18.9 million for the year ended 31 December 2008 to approximately RMB32.3 million for the year ended 31 December 2009, which was because Henan XLX Fertiliser was only entitled to a 50% reduction in income tax in 2009 and the Group was subject to a higher effective tax rate of 19% in 2009, while the Group was subject to an effective tax rate of 5% in 2008 as Henan XLX Fertiliser enjoyed full exemption of income tax in 2008.

Net profit attributable to owners of the parent

The net profit attributable to owners of the parent decreased by approximately RMB212.5 million or approximately 64.1% from approximately RMB331.7 million for the year ended 31 December 2008 to approximately RMB119.2 million for the year ended 31 December 2009.

Financial Resources, Liquidity and Liability Position

As at 31 December 2009, the Group's total assets were approximately RMB2,910,557,000 (2008: RMB2,481,904,000) (of which, current assets were approximately RMB530,837,000 (2008: RMB515,383,000) and non-current assets were approximately RMB2,379,720,000 (2008: RMB1,966,521,000)) and the total liabilities were approximately RMB1,435,914,000 (2008: RMB1,030,998,000) (of which, current liabilities were approximately RMB508,895,000 (2008: RMB463,807,000) and non-current liabilities were approximately RMB927,019,000 (2008: RMB567,191,000)), and shareholder's equity reached approximately RMB1,474,643,000 (2008: RMB1,450,906,000).

Management Discussion & Analysis

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%.

	2009 RMB'000	2008 RMB'000
Due to related companies	1,517	1,676
Trade payables	47,435	47,760
Bills payable	41,346	–
Accruals and other payables	364,535	285,011
Interest-bearing bank and other borrowings	945,152	667,974
Less: Cash and cash equivalents	(139,796)	(200,114)
Less: Pledged deposits	(21,173)	–
Net debt	1,239,016	802,307
Shareholders' equity	1,474,643	1,450,906
Less: Statutory reserve fund	(94,200)	(77,770)
Less: Hedging reserve	–	(19,807)
Total capital	1,380,433	1,353,329
Capital and net debt	2,619,459	2,155,636
Gearing ratio	47.3%	37.2%

The Group's net debt includes loans and borrowings, trade and other payables, other liabilities, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent less the hedging reserve and the above-mentioned restricted statutory reserve fund.

Loans

As at 31 December 2009, the Group's bank borrowings were mainly from banks in the PRC and were borrowed and repaid in RMB, and the Group had repaid all of its United States dollars loans and was free of the foreign exchange risk resulting from the United States dollars against RMB. Most of the Group's long-term bank borrowings are granted on a floating rate basis.

Management Discussion & Analysis

Amount payable in one year or less, or on demand

	As at 31 December 2009		As at 31 December 2008	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bank loans	–	110,000	–	145,000

Amounts payable after one year

	As at 31 December 2009		As at 31 December 2008	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bank loans	120,000	705,000	–	422,557
Loan from related party	–	–	–	90,000
Loan from government	–	10,152	–	10,417
	120,000	715,152	–	522,974

As at 31 December 2009, the Group has total of RMB120.0 million long-term loans which are guaranteed by Xinxiang Xinya Paper Group Ltd., an independent third party of the Group.

During the year ended 31 December 2008, the Group entered into two non-deliverable interest rate swaps which paid a fixed interest of approximately 2.55% per annum and received a variable interest equal to USD LIBOR+2.25% per annum on the notional amount on a quarterly basis. The swaps were used to hedge for cash flow interest rate risks arising from its floating rate United States dollars bank loan amounting to USD45,000,000. The floating rate bank loan and the interest rate swaps had the same critical terms. During the year ended 31 December 2009, the Group repaid the aforementioned bank loan and these two non-deliverable interest rate swaps entered into the last year no longer meet the criteria for hedge accounting. Hence, the contracts were terminated during the year.

Subsidiaries

The Company has only one wholly-owned subsidiary, namely Henan Xinlianxin Fertiliser Co., Ltd.. During the year, there were no changes in the subsidiary.

Employees

As at 31 December 2009, the Group had 3,302 employees (2008: 3,099 employees). Remuneration is determined by reference to market terms, the performance, qualifications and experience of individual employee. Employee benefits provided by the Group include social insurance fund, provident fund schemes, medical insurance scheme, unemployment insurance scheme and housing provident fund. For the year ended 31 December 2009, the total staff costs of the Group were approximately RMB94,504,000 (2008: RMB79,090,000).

Pledge of Assets

As at 31 December 2009, the Group did not pledge any assets (2008: Nil) as securities for the banking facilities granted by its bankers.

Contingent Liabilities

As at 31 December 2009, the Group had no material contingent liabilities (2008: Nil).

Material litigation and arbitration

As at 31 December 2009, the Group was not involved in any material litigation or arbitration.

(III) SUPPLEMENTARY INFORMATION

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

For the year ended 31 December 2009, 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. As at 31 December 2009, the Group had repaid all of its United States dollars loans and was free of the foreign exchange risk resulting from the United States dollars against RMB.

(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 decreased by 0.7% in 2009 as compared to the same period in 2008. 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 31 December 2009, approximately RMB110.0 million (2008: RMB145.0 million), or 11.6% (2008: 21.7%) 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 shareholder 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 2008 and 2009. The gearing ratio of the Group as at 31 December 2009 (calculated as net debt divided by total capitalisation plus net debt) was 47.3%, representing an increase of 10.1% as compared to 31 December 2008. As at 31 December 2009, the Group had no pledge of assets.

Biographies of Board of Directors and Senior Management

EXECUTIVE DIRECTORS



Mr. Liu Xingxu

Chairman of the Board
Chief Executive Officer

Ms. Yan Yunhua

Chief Financial Officer

Mr. Li Buwen

INDEPENDENT NON-EXECUTIVE DIRECTORS



Mr. Ong Kian Guan

Mr. Li Shengxiao

Mr. Ong Wei Jin

SENIOR MANAGEMENT



Mr. Ru Zhengtao

Deputy General Manager
(Production Department)

Mr. Li Yushun

Deputy General Manager
(R&D Department)

Mr. Wang Nairen

Deputy General Manager
(Sales & Purchasing Department)

Mr. Zhang Qingjin

Deputy General Manager
(Human Resources Department)

Biographies of Board of Directors and Senior Management

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Xingxu, aged 55, is the chairman of our Board and chief executive officer, and is principally in charge of our Group's overall strategic direction as well as the management of our day-to-day business operations. Mr. Liu was appointed as our executive Director on 26 July 2006. Mr. Liu has approximately 15 years of experience in the chemical fertiliser industry. He is currently the Vice Chairman of China Nitrogen Fertiliser Industry Association. Mr. Liu was appointed the factory head of Xinxiang Factory, a state-owned enterprise, in charge of factory operations in 1994 and then became the general manager of Henan Xinlianxin Chemicals Group Co., Ltd. ("**XLX Chem**") from July 2003 to July 2006. He has been general manager of Henan XLX Fertiliser since July 2006. In February 2003, Mr. Liu was awarded the "Provincial Safe Production Advanced Worker" by Safe Production Supervision Bureau of Henan Province and Personnel Bureau of Henan Province for outstanding performance in safety work. In April 2004, he was awarded the "Henan Province Labour Model (Advanced Worker)" and in 2005, he was awarded the "Henan Province Outstanding Private Enterprise Entrepreneur" by the People's Government of Henan Province. Mr. Liu graduated from Xinxiang Broadcasting and Television University in July 1986 with a Diploma in Arts. In 2006, he completed EDP (Executive Development Programs) courses from Guanghua School of Management, Peking University. Currently, Mr. Liu is pursuing EMBA degree of Tsinghua University.

Ms. Yan Yunhua, aged 39, is our executive Director and chief financial officer, and is principally in charge of all financial matters within our Group. Ms. Yan was appointed as our executive Director on 10 November 2006. Ms. Yan has more than 14 years of accounting and finance experience. Ms. Yan is currently the executive chairman of the Finance Research Association of China Nitrogen Fertiliser Industry Association and executive member of Henan Accountants Association. She joined Xinxiang Factory in December 1997 and held various positions in Xinxiang Factory, including the deputy head of finance division and the deputy chief accountant. She was the chief accountant in charge of finance of XLX Chem from 2003 to July 2006. She has been the deputy general manager of Henan XLX Fertiliser since July 2006. Ms. Yan was awarded the Accountants Contribution Award in PRC in 2008, and Advanced Worker in Accounting of Henan Province in 2009. Ms. Yan obtained the accountant certification from the Ministry of Finance of the PRC in May 1997. She graduated from Xi'an Communications University in July 2003 with a degree in accountancy and obtained the senior accountant certification from Henan Province Accountant Series Senior Assessment Committee in December 2005. Ms. Yan obtained the EMBA (Executive Master of Business Administration) degree from Guanghua School of Management, Peking University in July 2009.

Mr. Li Buwen, aged 57, is our executive Director, and is principally in charge of the overall administrative functions of our Group. Mr. Li was appointed as our executive Director on 10 November 2006. Mr. Li has more than 30 years of experience in chemical fertiliser industry. Mr. Li held various positions in Xinxiang Factory, including the deputy head of Xinxiang Factory. He was the deputy general manager in charge of administration department of XLX Chem from August 2003 to July 2006. He has been the deputy general manager of Henan XLX Fertiliser in charge of administrative matter since July 2006. Mr. Li obtained certification from the State Economic and Trade Commission Economic Cadre Training Centre, National Enterprises Human Resource Management and Development in May 2001 and certification from the Beijing Quality Association Quality Management Technical Services Centre Internal Quality System Inspector in August 2005. As recognition of his contribution to the development of nitrogenous fertiliser industry, he was awarded the "Award of Excellence" by Nitrogenous Fertiliser Industrial Association in February 1998.

Biographies of Board of Directors and Senior Management

Independent non-executive Directors

Mr. Ong Kian Guan, aged 41, has been appointed as our independent non-executive Director since 11 May 2007. Mr. Ong has been an audit partner with Baker Tilly TFWLCL since October 2005. He is also an independent director of three other companies listed in Singapore which includes JES International Holdings Limited, China Haida Ltd. and China Animal Healthcare Ltd. Mr. Ong graduated from the Nanyang Technological University in Singapore with a bachelor of accountancy in May 1992.

Mr. Ong was appointed as our lead independent non-executive Director because the Singapore Code of Corporate Governance (the “**Singapore Corporate Governance Code**”) issued by the SGX-ST provides that companies incorporated in Singapore may appoint an independent non-executive director to be the lead independent director while the chairman and the chief executive officer is the same person. Given that Mr. Liu is both our chairman and the chief executive officer, Mr. Ong has been appointed as our lead independent non-executive Director. Based on the provisions of the Singapore Corporate Governance Code, the role of the lead independent non-executive director is to be available to shareholders when they have concerns which (i) cannot be resolved even after they have brought it to the attention of the chairman and chief executive officer; or (ii) are inappropriate to be brought to the attention of the chairman and chief executive officer of that company.

Mr. Li Shengxiao, aged 47, has been appointed as our independent non-executive Director since 11 May 2007. He has been a professor in Shaoxing Arts and Science College since November 2004 and is currently the dean of school of economics and management in Shaoxing Arts and Science College. Mr. Li has been the instructor of establishment of Zhejiang province small and medium enterprises in Zhejiang Province Small and Medium Enterprises Bureau since October 2006. Mr. Li has been an independent non-executive director of Zhejiang Jinggong Technology, a company listed on the Shenzhen Stock Exchange since August 2006. Mr. Li graduated from Hangzhou University (which is currently known as Zhejiang University currently) in July 1987 with a graduation certificate in politics. He then obtained a master’s degree in law from Hangzhou University in July 1990. He was awarded Zhejiang province high school outstanding youth teacher in September 1991.

Mr. Ong Wei Jin, aged 43, has been appointed as our independent non-executive Director since 11 May 2007. He is a partner of Colin Ng & Partners, a firm of advocates and solicitors established in 1988 in Singapore. With his principle areas of practice in corporate finance and general corporate law, he also advises on securities regulatory and compliance issues for investment advisory and brokerage activities. He is an independent director of Luzhou Biochem Technology Limited and NTI International Limited companies listed on the SGX-ST. Mr. Ong obtained a bachelor of laws from the National University of Singapore in 1990, a master of business administration from University of Hull in 1993, and a master of laws from the National University of Singapore in 1995. He was admitted as advocate and solicitor of the Supreme Court of Singapore in 1995.

Biographies of Board of Directors and Senior Management

SENIOR MANAGEMENT

Mr. Ru Zhengtao, aged 53, is the deputy general manager in charge of production department of Henan XLX Fertiliser since 31 July 2006. Mr. Ru has more than 30 years' experience in chemical fertiliser industry. He started his career with Xinxiang Factory in 1974 and held various positions including assistant to head of Xinxiang Factory, deputy head of Xinxiang Factory and head of nitrogen fertiliser plant of Xinxiang Factory. He was the deputy general manager of XLX Chem from July 2003 to July 2006. Mr. Ru graduated from Zhengzhou Engineering College with a tertiary certificate in March 1993. He was awarded the "Technological Reformation Results Third Prize for Reforming Urea Granule-making Nozzle to Produce Large Urea Granules" by Xinxiang Trade Union, Xinxiang Science and Technology Committee, Xinxiang Economic Committee and Xinxiang Finance Bureau in February 1999.

Mr. Li Yushun, aged 49, is the deputy general manager in charge of the R&D department of Henan XLX Fertiliser since 31 July 2006. Mr. Li has more than 20 years of experience in the chemical fertiliser industry. He joined Xinxiang Factory in August 1982 and was appointed as the deputy factory head of Xinxiang Factory in 1993. Mr. Li was the deputy general manager in charge of research and development department of XLX Chem from August 2003 to July 2006. Mr. Li graduated from Zhengzhou Engineering College in July 1982 with a major in chemical technology. In 2004, he was awarded First in Third Prize for Adopting the Improved Water Solution Full Circulation Method Urea Technology to Expand Production and Reduce Wastage by the People's Government of Xinxiang. In November 2006, he was awarded the Second Prize in General Treatment and Environmental Protection Project for Zero Discharge of Waste water Produced in the Production of Nitrogen Fertiliser by China Nitrogen Fertiliser Industry Association.

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

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

Biographies of Board of Directors and Senior Management

JOINT COMPANY SECRETARIES

Mr. Cheah Soon Ann Jeremy, aged 34, has been our financial controller and one of the joint company secretaries since January 2007. Mr. Cheah has over 10 years of experience in finance management. Prior to joining us, he was employed as an assistant manager of finance department in mDR Limited, responsible for cash reporting and implementation of systems, applications and products in data processing (SAP) from August 2004 to November 2006, and was a senior officer of audit department in the Agency for Science, Technology and Research (A*STAR) in 2001 and as an audit assistant in Foo, Kon & Tan Grant Thornton in 1999. Mr. Cheah was awarded as a chartered financial analyst by the Association for Investment Management and Research in September 2002 and has been a member of the Institution of Certified Public Accountants of Singapore since November 2002. Mr. Cheah graduated from the Nanyang Technological University in 1999 with a bachelor's degree in accountancy and from the University of Adelaide in 2008 with a master's degree in business administration.

Ms. Foo Soon Soo, aged 51, has been our joint company secretary since May 2007. Ms. Foo is also acting as the company secretary for various companies in Singapore, including Thomson Medical Centre Limited, Lee Metal Group Ltd, Colex Holdings Limited, AEI Corporation Ltd. And Bonvests Holdings Limited, Kim Eng Holdings Limited, Superbowl Holdings Limited, Vashion Group Ltd., Amara Holdings Limited, Multistar Holdings Limited, Gallant Venture Ltd., Addvalue Technologies Ltd., Sky One Holdings Limited, RSH Limited, Asiamedic Limited, Cortina Holdings Limited, Leren Bio-Chem Ltd., Roxy-Pacific Holdings Limited, Pteris Global Limited, Rotol Singapore Ltd. and Zingmobile Group Limited. Ms. Foo graduated from the National University of Singapore with a bachelor's degree in accountancy in May 1980 and University of London with a bachelor's degree of laws in August 1989. She was admitted fellow in April 1991 by the Institute of Chartered Secretaries and Administrators, London. In August 2004, she was admitted as fellow (FCPA) by the Institute of Certified Public Accountants of Singapore.

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

Corporate Governance Report

China XLX Fertiliser Ltd. (the “**Company**”) is committed to achieving and maintaining high standards of corporate governance principles and processes in managing the business and affairs, so as to improve the performance, accountability, and transparency of the Company and its subsidiary (collectively the “**Group**”).

During the year under review, the Board of Directors of the Company (the “**Board**”) has reviewed its corporate governance practices and ensured that they are in compliance with all the applicable code provisions of the Code of Corporate Governance 2005 (the “**Singapore CG Code**”) issued by the Council Corporate Disclosure and Governance, Singapore for the year under review and the Code on Corporate Governance Practices (the “**HK CG Code**”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**SEHK**”) from the date on which the shares of the Company are listed on the SEHK.

This corporate governance report sets out how the Company has applied the principles of good corporate governance in a disclosure-based regime where accountability of the Board to the Company’s shareholders and the management to the Board provides the framework for achieving a mutually beneficial tripartite relationship aimed at creating, enhancing and growing sustainable shareholders’ value.

BOARD MATTERS

The Board’s Conduct of its Affairs

Principle 1: Every company should be headed by an effective Board to lead and control the company. The Board is collectively responsible for the success of the company. The Board works with management to achieve this and the management remains accountable to the Board.

The Board comprises six directors (the “**Directors**”): 3 executive Directors and 3 independent non-executive Directors, having the appropriate mix of core competencies and diversity of experience to direct and lead the Company. As at the date of this report, the Board comprises the following members:

Mr. Liu Xingxu	(Chief Executive Officer, Executive Chairman and Executive Director)
Ms. Yan Yunhua	(Chief Financial Officer and Executive Director)
Mr. Li Buwen	(Executive Director)
Mr. Ong Kian Guan	(Lead Independent non-executive Director)
Mr. Li Shengxiao	(Independent non-executive Director)
Mr. Ong Wei Jin	(Independent non-executive Director)

The primary role of the Board is to protect and enhance long-term shareholders’ value. It sets the corporate strategies of the Group, sets directions and goals for the management. The Board also supervises the management and monitors performance of these goals to enhance shareholders’ value. The Board is responsible for the overall corporate governance of the Group.

Regular meetings are held to deliberate the strategic policies of the Company including significant acquisitions and disposals, review and approve annual budgets, review the performance of the business and approve the public release of periodic financial results.

Corporate Governance Report

The day-to-day management, administration and operation of the Group are delegated to the executive Directors. Each executive Director of the Company has accumulated sufficient and valuable experience to hold his/her position in order to ensure that his/her fiduciary duties can be carried out in an effective and efficient manner.

The Board has formed specialized Committees namely the Audit Committee (the “**AC**”), the Nomination Committee (the “**NC**”) and the Remuneration Committee (the “**RC**”) (collectively the “**Committees**”) to assist in carrying out and discharging its duties and responsibilities efficiently and effectively. The Committees function within clearly defined terms of references and operating procedures, which are reviewed on a regular basis. The effectiveness of each Committee is also constantly reviewed by the Board.

The Directors have complied with both the Singapore CG Code and the HK CG Code, which the Board meeting should be held at least four times a year at approximately quarterly intervals, relating to the review of the financial performance, results of each period, material investments and other matters of the Group that require the resolutions of the Board. Simultaneous conference call(s) may be used to improve attendance when individual Director cannot attend the meeting in person.

The following table discloses the number of meetings held for Board and the Committees and the attendance of all Directors for the financial year ended 31 December 2009:

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATING COMMITTEE
Number of meetings held	5	4	1	1
Mr. Liu Xingxu	4	N.A.	N.A.	1
Ms. Yan Yunhua	5	N.A.	N.A.	N.A.
Mr. Li Buwen	5	N.A.	N.A.	N.A.
Mr. Ong Kian Guan	5	4	1	N.A.
Mr. Li Shengxiao	5	4	1	1
Mr. Ong Wei Jin	4	3	–	–

While the Board considers Directors’ attendance at Board meetings to be important, it should not be the only criterion to measure their contributions. It also takes into account the contributions by Board members in other forms including periodical reviews, provision of guidance and advice on various matters relating to the Group.

Board Composition and Balance

Principle 2: There should be a strong and independent element on the Board, which is able to exercise objective judgement on corporate affairs independently, in particular, from management. No individual or small group of individuals should be allowed to dominate the Board’s decision making.

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

Corporate Governance Report

The Board is of the view that the current Board members comprise persons whose diverse skills, experience and attributes provide for effective direction for the Group. The composition of the Board will be reviewed on an annual basis by the NC to ensure that the Board has the appropriate mix of expertise and experience, and collectively possess the necessary core competencies for effective functioning and informed decision-making.

The articles of association of the Company (the “**Articles**”) have stated clearly the procedures for the appointment of new Directors, re-election and removal of Directors. The service contracts with the executive Directors commenced on 8 December 2009, with a specific term of 3 years, renewable automatically for successive terms of three years from 8 December 2012 respectively, provided that the appointments may be terminated by the Company or respective Director with a written notice of not less than six months. The service contract with the independent non-executive Directors commenced on 8 December 2009 with a specific term of 3 years provided that the appointments may be terminated by the Company or respective Directors with a written notice of not less than 3 months. Pursuant to Article 89 of the Articles, Mr. Liu Xingxu and Mr. Ong Kian Guan will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 27 April 2010.

For the year ended 31 December 2009, the Board at all times complied with the minimum requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors and complied with the requirement that these should include one such Director with appropriate professional qualifications of accounting or related financial management expertise. Furthermore, the Company has received from each of its independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers the independent non-executive Directors to be independent.

There is no relationship among members of the Board. Key information regarding the directors is given in the “Board of Directors” on pages 32 to 36 of this annual report.

Particulars of interests of Directors who held office at the end of the financial year in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are set out in the Report of Directors on pages 49 to 59 of this annual report.

Chairman and Chief Executive Officer

Principle 3: There should be a clear division of responsibilities at the top of the company – the working of the Board and the executive responsibility of the company’s business – which will ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Mr. Liu Xingxu has been the Executive Chairman and Chief Executive Officer (“**CEO**”) since the incorporation of the Company. The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure so as to ensure that the decision-making process of the Group would not be unnecessarily hindered as well as to ensure the Group to grasp business opportunities efficiently and promptly.

Mr. Liu Xingxu is the largest shareholder of the Company who is deemed to hold approximately 34.34% of the issued share capital of the Company through Pioneer Top Holdings Limited (“**Pioneer Top**”)⁽¹⁾. He is in charge of the Group’s overall strategic directions and manages the day-to-day business operations. He also ensures timeliness of information flow between the Board and management. He has played a vital role in developing the business of the Group and has also provided the Group with strong leadership and vision.

Corporate Governance Report

Major decisions made by the Executive Chairman and CEO are reviewed by the Board. His performance and appointment to the Board is being reviewed by the NC and his remuneration package is being reviewed by the RC. The AC, NC and RC comprise a majority of independent directors of the Company. As such, the Board believes that there are adequate safeguards in place to ensure a balance of power and authority, such that no one individual represents a considerable concentration of power.

Note:

- (1) Pioneer Top is an investment holding company established in the British Virgin Islands. Mr. Liu Xingxu, beneficially owns approximately 42% in Pioneer Top, and holds approximately 58% in Pioneer Top on trust for the beneficiaries under the trust agreement dated 26 July 2006. Mr. Liu has the full discretion to exercise the voting rights held by Pioneer Top in the Company.

Board Membership

Principle 4: There should be a formal and transparent process for the appointment of new Directors to the Board.

The NC comprises three members, majority of whom including the chairman are independent non-executive directors.

Mr. Li Shengxiao	(Chairman)
Mr. Ong Wei Jin	(Member)
Mr. Liu Xingxu	(Member)

The NC functions under the terms of reference which sets out its responsibilities:

- (a) to make recommendations to the Board on all board appointments, including re-nominations, having regard to the Director's contribution and performance (for example, attendance, preparedness, participation and candour) including, if applicable, as an independent non-executive Director. All Directors shall be required to submit themselves for re-nomination and re-election at regular intervals and at least every three years;
- (b) to determine annually whether or not a Director is independent;
- (c) in respect of a director who has multiple board representations on various companies, to decide whether or not such Director is able to and has been adequately carrying out his/her duties as Director, having regard to the competing time commitments that are faced when serving on multiple boards; and
- (d) to decide how the Board's performance may be evaluated and propose objective performance criteria, as approved by the Board that allows comparison with its industry peers, and address how the Board has enhanced long terms shareholders' value.

Corporate Governance Report

The Articles require one-third of the Board to retire from office at each annual general meeting (“**AGM**”). Accordingly, the Directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three years. The Company has in place policies and procedures for the appointment of new Directors to the Board, including a search and nomination process. In accordance with Article 89 of the Articles, Mr. Liu Xingxu and Mr. Ong Kian Guan will retire, being eligible, offer themselves for re-election at the forthcoming AGM to be held on 27 April 2010.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the Board as a whole and the contribution by each director to the effectiveness of the Board.

The NC examines the Board’s size on an annual basis to satisfy that it is appropriate for effective decision making, taking into account the nature and scope of the Company’s operations.

The NC has reviewed and evaluated the performance of the Board, taking into consideration the attendance record at the meetings of the Board and the Committees and also the contribution of each Director to the effectiveness of the Board.

Where a Director has multiple board representations, the NC will evaluate whether or not the Director is able to carry out and has been adequately carrying out his/her duties as a director of the Company.

For the current year, the Board is satisfied that each Director has allocated sufficient time and resources to the affairs of the Company.

Access to Information

Principle 6: In order to fulfill their responsibilities, Board members should be provided with complete, adequate and timely information prior to board meetings and on an on-going basis.

All Directors are from time to time furnished with information concerning the Company to enable them to be fully cognisant of the decisions and actions of the Company’s executive management. The Board has unrestricted access to the Company’s records and information.

Senior members of management staff are available to provide explanatory information in the form of briefings to the directors or formal presentations in attendance at Board meetings, or by external consultants engaged on specific projects.

The Board has separate and independent access to the company secretaries of the Company (the “**Company Secretary(ies)**”) and to other senior management executives of the Company and of the Group at all times in carrying out their duties. The Company Secretary or his/her representative attends all Board meetings and meetings of the Board committees of the Company and ensure that Board procedures are followed and that applicable rules and regulations are complied with. The minutes of the Committees’ meetings are circulated to the Board.

Corporate Governance Report

Each Director has the right to seek independent legal and other professional advice, at the Company's expense, concerning any aspect of the Group's operations or undertakings in order to fulfill their duties and responsibilities as Directors.

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

Principle 7: There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his own remuneration.

To effect the best corporate governance, the Company has established the RC with written terms of reference since July 2007. The RC comprises three members, all of whom are independent non-executive Directors. The members of the RC are:

Mr. Ong Wei Jin	(Chairman)
Mr. Ong Kian Guan	(Member)
Mr. Li Shengxiao	(Member)

The RC recommends to the Board a framework of remuneration for the Directors and executive officers, and determines specific remuneration package for each executive Director. The recommendations will be submitted for endorsement by the Board.

All aspects of remuneration, including but not limited to directors' fees, salaries, allowances, bonuses and benefits in kind, will be covered by the RC. Each RC member will abstain from voting on any resolution in respect of his/her remuneration package.

The RC is responsible for the following:

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

The RC will be provided with access to expert professional advice on remuneration matters as and when necessary. The expense of such services shall be borne by the Company.

Corporate Governance Report

Level and Mix of Remuneration

Principle 8: The level of remuneration should be appropriate to attract, retain and motivate the directors needed to run the company successfully but companies should avoid paying more than is necessary for this purpose. A significant proportion of executive directors' remuneration should be structured so as to link rewards to corporate and individual performance.

In setting remuneration packages, the RC will take into consideration the pay and employment conditions within the industry and in comparable companies. The remuneration of non-executive Directors is also reviewed to ensure that the remuneration is commensurate with the contribution and responsibilities of the Directors.

The Company will submit the quantum of Directors' fees of each year to the shareholders for approval at each AGM.

The executive Directors have service agreements. The service agreements cover the terms of employment.

Disclosure on Remuneration

Principle 9: Each company should provide clear disclosure of its remuneration policy, level and mix of remuneration, and the procedure for setting remuneration in the company's annual report. It should provide disclosure in relation to its remuneration policies to enable investors to understand the link between remuneration paid to directors and key executives, and performance.

The details of the remuneration of Directors and top 5 key executives of the Group disclosed in bands for services rendered during the financial year ended 31 December 2009 are as follows:

	Number of Directors		Top Five Key Executive	
	2009	2008	2009	2008
S\$500,000 and above	–	1	–	–
S\$250,000 to S\$499,999	–	2	–	–
Below S\$249,999	6	3	5	5
Total	6	6	5	5

Corporate Governance Report

The summary compensation table for the Directors of the Group for the financial year ended 31 December 2009 is set out below:

	Salary %	Bonus %	Directors' Fees %	Allowances and Other Benefits %	Total Compensation %
Executive Directors:					
S\$500,000 and above	–	–	–	–	–
S\$250,000 to S\$499,999					
Mr. Liu Xingxu	98	–	–	2	100
Ms. Yan Yunhua	98	–	–	2	100
Mr. Li Buwen	98	–	–	2	100
Non-Executive Directors:					
Below S\$249,999					
Mr. Ong Kian Guan	–	–	100	–	100
Mr. Li Shengxiao	–	–	100	–	100
Mr. Ong Wei Jin	–	–	100	–	100

Immediate Family Member of Directors or Substantial Shareholders

No employee of the Company and its subsidiary was an immediate family member of a Director and/or a substantial shareholder whose remuneration exceeded S\$150,000 during the financial year ended 31 December 2009.

ACCOUNTABILITY AND AUDIT

Accountability

Principle 10: The Board should present a balanced and understandable assessment of the company's performance, position and prospects.

The Board is accountable to the shareholders and is mindful of its obligations to furnish timely information and to ensure full disclosure of material information to shareholders in compliance with statutory requirements and the Listing Manual of the SGX-ST (the "Listing Manual") and the Listing Rules.

Price sensitive information will be publicly released either before the Company meets with any group of investors or analysts or simultaneously with such meetings. Financial results and annual reports will be announced or issued within legally prescribed periods.

Corporate Governance Report

The Board also acknowledges its responsibility for preparing the financial statements of the Group. The Board ensures that the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in "The Independent Auditor's Report" on pages 60 to 61 of this annual report.

Audit Committee

Principle 11: The Board should establish an Audit Committee with written terms of reference which clearly set out its authority and duties.

The Company has established the AC since July 2007 comprising the following three members, all of whom are independent non-executive Directors:

Mr. Ong Kian Guan	(Chairman)
Mr. Li Shengxiao	(Member)
Mr. Ong Wei Jin	(Member)

The AC functions under the terms of reference which sets out its responsibilities as follows:

- i. review the audit plans and reports of our internal and external auditors;
- ii. review of the financial statements before submission to the Board for approval;
- iii. review and consider the appointment or re-appointment of the external auditors and matters relating to resignation or dismissal thereof;
- iv. review of interested person transactions (within the definition of the Listing Manual) involving the Group in accordance with the Listing Manual and the Listing Rules;
- v. review the effectiveness and adequacy of the internal accounting and financial control procedures;
- vi. generally undertake such other functions and duties as may be required by the Listing Manual and the Listing Rules;
- vii. review and approve future hedging policy, instruments used for hedging and foreign exchange policy and practice of the Group (if it becomes applicable to the Group in the future); and
- viii. consider the appointment and termination of our internal auditors

Corporate Governance Report

The AC has the power to conduct or authorise investigations into any matters within the AC's scope of responsibility. The AC is authorised to obtain independent professional advice if it deems necessary in the discharge of its responsibilities. Such expenses are to be borne by the Company.

Each member of the AC shall abstain from voting any resolutions in respect of matters he/she is interested in.

The AC has full access to and co-operation of the management and has full discretion to invite any Director or executive officer to attend its meetings, and has been given reasonable resources to enable it to discharge its functions.

The AC meets with both the external and internal auditors without the presence of the management at least once a year.

The AC reviews the independence of the external auditors annually. The AC, having reviewed the range and value of non-audit services performed by the external auditors, Ernst & Young LLP, was satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The AC recommended that Ernst & Young LLP be nominated for re-appointment as auditors at the forthcoming AGM. There is no disagreement between the Board and AC regarding the selection, appointment, resignation or dismissal of external auditors. During the year under review, the Company has paid an aggregate of approximately S\$217,000 (2008: S\$260,000) to the external auditor for its audit services, and has paid an audit fees of approximately S\$1,080,000 to the external auditors for its listing application in Hong Kong and other professional services.

The Company has in place a whistle-blowing framework for employees of the Group to raise concerns about improprieties.

The Company's annual results for the year ended 31 December 2009 has been received by the AC.

Internal Controls

Principle 12: The Board should ensure that the management maintains a sound system of internal controls to safeguard the shareholders' investments and the company's assets.

The AC will ensure that a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management, is conducted annually. In this respect, the AC will review the audit plans, and the findings of the external and internal auditors and will ensure that the Company follows up on the auditors' recommendations raised, if any, during the audit process. The Company will continue to make efforts in improving its internal control system.

Internal Audit

Principle 13: The Company should establish an internal audit function that is independent of the activities it audits.

The Company has in place an internal audit function comprising four staffs and headed by Mr. Huang Beng Fa, to check and report on the internal affairs of the Group. Mr. Huang reports directly to the AC and is not related to the Directors, executive officers or substantial shareholders.

Corporate Governance Report

The primary functions of internal audit are to:

- (a) assess if adequate systems of internal controls are in place to protect the funds and assets of the Group and to ensure control procedures are complied with;
- (b) assess if operations of the business processes under review are conducted efficiently and effectively; and
- (c) identify and recommend improvement to internal control procedures, where required.

The AC has reviewed the internal auditors and external auditors' report and the internal controls in place, and is satisfied that there are adequate internal controls in the Company.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

Communication with Shareholders

Principle 14: Companies should engage in regular, effective and fair communication with shareholders.

Principle 15: Companies should encourage greater shareholder participation at AGM's and allow shareholders the opportunity to communicate their views on various matters affecting the Company.

In line with continuous obligations of the Company pursuant to the Listing Manual and Listing Rules, the Board's policy is that all shareholders be informed of all major developments that impact the Group.

Information is disseminated to shareholders and investors on a timely basis through:

- (a) SGXNET and SEHK announcements and news release;
- (b) Annual Report prepared and issued to all shareholders;
- (c) Press releases on major developments of the Group;
- (d) Notices of and explanatory memoranda for AGM and extraordinary general meetings ("**EGM**"); and
- (e) Company's website at <http://www.chinaxlx.com.sg> at which shareholders can access information on the Group, and Roadshows organized by banks and plant visits to our factory.

The Company's AGMs are the principal forums for dialogue with shareholders. The Chairman of the Committees are normally available at the meetings to answer any question relating to the work of the Committees. The External Auditors shall also be present to assist the Directors in addressing any relevant queries by the shareholders.

Shareholders are encouraged to attend the AGM/EGM to ensure high level of accountability and to stay apprised of the Group's strategy and goals. Notice of the meeting will be advertised in newspapers and announced on SGXNET and SEHK's website.

Corporate Governance Report

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct rules regarding securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code"). In addition, the specific enquiry has been made to all Directors in relation to whether the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

Interested Person Transactions Policy

The Company adopted an internal policy in respect of any transactions with interested person (as defined in the Listing Manual) and connected persons (as defined in the Listing Rules) and has established procedures for review and approval of the interested person transactions entered into by the Group. The AC has reviewed the rationale and terms of the Group's interested person transactions and is of the view that the interested person transactions are on normal commercial terms and are not prejudicial to the interests of the shareholders.

The interested person transactions transacted for the year ended 31 December 2009 by the Group are as follows:

Name of Interested Person	Aggregate value of all interested person transactions conducted (excluding transactions less than S\$100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) RMB'000	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than S\$100,000) RMB'000
Henan Xinlianxin Chemicals Group Co., Ltd.	25,586	–

MATERIAL CONTRACTS

There were no material contracts entered into by the Company or any of its subsidiary involving the interest of the CEO, any Directors, or controlling shareholders.

Report of Directors

The directors (the “**Directors**”) of China XLX Fertiliser Ltd. (the “**Company**”) are pleased to present their report together with the audited consolidated financial statements of the Company and its subsidiary (collectively, the “**Group**”) and the statement of financial position and statement of changes in equity of the Company for the financial year ended 31 December 2009.

ADOPTION OF CHINESE NAME

Pursuant to a special resolution passed at the extraordinary general meeting of the Company held on 3 November 2009, the Company has adopted the Chinese name “中國心連心化肥有限公司” as its secondary name.

LISTING ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “SEHK”)

The Company’s ordinary shares (the “**Shares**”) were successfully listed on the main board of the SEHK on 8 December 2009 by way of introduction. As a result, the Company now has a dual primary listing of its Shares on both the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and SEHK.

PRINCIPAL ACTIVITIES

The Group is principally engaged in manufacturing, sales and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution.

RESULTS AND DIVIDENDS

The Group’s profit for the year ended 31 December 2009 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 62 to 120 of this annual report.

No interim dividend was paid during the year. The Directors recommend the payment of a final dividend of SGD0.6 cent (2008: SGD1.6 cents) per Share in respect of the year to shareholders of the Company (the “**Shareholders**”) on the Company’s register of members on 11 May 2010, such dividend will be paid on 27 May 2010. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the statement of financial position.

The Singapore Principle Share Transfer Books and Singapore Register of Members of the Company in Singapore will be closed from 11 May 2010 after 5.00 p.m. to 12 May 2010 for the purpose of determining the Shareholders’ entitlements to the dividends to be proposed at the annual general meeting of the Company to be held on 27 April 2010 (the “**AGM**”). Duly completed transfers in respect of shares in the Company received up to close of the business at 5.00 p.m. on 11 May 2010 by the Company’s Singapore Principal Registrar, KCK CorpServe Pte. Ltd., 333 North Bridge Road KH KEA Building #08-00, Singapore 188721 will be registered to determine Shareholders’ entitlements to such dividend. Shareholders whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares of the Company as at 5.00 p.m. on 11 May 2010 will be entitled to such proposed dividend.

The Hong Kong Branch Share Register will be closed on 12 May 2010 for the purpose of determining the Shareholders’ entitlement to the dividends to be proposed at the AGM. In order to qualify for the proposed final dividend for Hong Kong Shareholders, all transfers, accompanied by the relevant share certificates, must be lodged with the Hong Kong Branch Share Registrar of the Company, Tricor Investor Services Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 11 May 2010.

Report of Directors

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the last three financial years, and the proforma consolidated results and assets and liabilities of the Group for the two preceding years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out on page 123 of this annual report. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

SHARE CAPITAL

There were no movements in the Company's issued share capital during the year. Details of the Company's share capital are set out in note 30 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "**Articles**") or the laws of Singapore, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF SHARES

Neither the Company, nor its subsidiary purchased, redeemed or sold its equity securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2009, the Company had no reserves available for distribution.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year and purchases from the Group's five largest suppliers accounted for less than 30% of the total purchases for the year.

None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers.

Report of Directors

DIRECTORS

The Directors of the Company during the year are:

Executive Directors:

Liu Xingxu
Yan Yunhua
Li Buwen

Independent non-executive Directors:

Ong Kian Guan
Li Shengxiao
Ong Wei Jin

In accordance with Article 89 of the Articles, Mr. Liu Xingxu and Mr. Ong Kian Guan will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting. The independent non-executive directors are appointed for periods of three years.

The Company has received annual confirmations of independence from each of the independent non-executive directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”) and still considers them to be independent.

ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES AND DEBENTURES

Neither at the end of nor at any time during the year was the Company a party to any arrangement whose objects are, or one of whose objects is, to enable the Directors or their respective spouses or minor children to acquire benefits by means of the acquisition of Shares in or debentures of the Company or any other body corporate.

DIRECTORS’ AND SENIOR MANAGEMENT’S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 32 to 36 of this annual report.

DIRECTORS’ SERVICE CONTRACTS

Each of the executive Directors entered into a service contract with the Company for an initial term of three years commencing from 8 December 2009, renewable automatically for successive terms of three years upon the date of expiry of the first three-year period, unless terminated in accordance with the provisions of the service contract by either party giving to the other not less than six months’ prior notice in writing at the end of the initial term or at any time thereafter.

The Company has issued a letter of appointment to each of the independent non-executive Directors of the Company for an initial term of three years commencing from 8 December 2009.

Report of Directors

Apart from the foregoing, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The Directors' remuneration is subject to approval by the remuneration committee with reference to Directors' duties, responsibilities and performance and the results of the Group. Details of Directors' remuneration are set out in note 9 to the financial statement.

HIGHEST PAID INDIVIDUALS

During the year, the five individuals with the highest remuneration in the Group are all Director and senior management of the Company. Details of the highest paid individuals are set out in note 10 to the financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests and short positions of the Directors and chief executive of the Company in Shares and underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to be Company and the SEHK pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules, were as follows:

Long positions in Shares of the Company

Name of Directors	Number of issued Shares in the Company			Personal of the Company's issued share capital
	Personal interests	Corporate interests	Total interests	
Mr. Liu Xingxu (Note (a))	–	343,376,000	343,376,000	34.34%
Ms. Yan Yunhua (Note (b))	300,000	280,624,000	280,924,000	28.09%
Mr. Li Buwen (Note (c))	–	54,940,000	54,940,000	5.49%
Mr. Ong Kian Guan	100,000	–	100,000	0.01%

Notes:

- (a) Mr. Liu Xingxu beneficially owns approximately 42% of equity interest in Pioneer Top Holdings Limited ("Pioneer Top") and holds approximately 58% of equity interest in Pioneer Top in trust for seven beneficiaries (including Mr. Li Buwen) under a trust agreement, and Pioneer Top in turn holds approximately 34.34% of the total issued shares in the Company. Pursuant to the trust agreement dated 26 July 2006, Mr. Liu Xingxu is irrevocably granted the absolute discretion to the voting rights and day-to-day management rights in Pioneer Top.

Report of Directors

- (b) Yan Yunhua beneficially owns approximately 12.74% of equity interest in Go Power Investments Limited (“Go Power”) and holds approximately 87.26% of the equity interest in Go Power in trust for a total of 1,463 beneficiaries under a trust agreement, and Go Power in turn holds approximately 28.06% of the total issued shares in the Company. Pursuant to the trust agreement dated 26 July 2006 and a trust confirmation dated 16 June 2009, Yan Yunhai is irrevocably granted the absolute discretion to the voting rights and day-to-day management rights in Go Power.
- (c) Liu Xingxu holds 16% of the equity interest in Pioneer Top in trust for Li Buwen in accordance with the trust agreement dated 26 July 2006, and Pioneer Top holds approximately 34.34% of the total issued shares in the Company.

There was no change in any of the above-mentioned interests between the end of the financial year of 2009 and 21 January 2010.

Save as disclosed above, as at 31 December 2009, none of the Directors, chief executive of the Company nor their associates had or was deemed to have any interests or short position in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), which has been recorded in the register maintained by the Company pursuant to Section 352 of the SFO or which has been notified to the Company and the SEHK pursuant to the Model Code.

DIRECTORS’ INTEREST IN CONTRACTS

Except as disclosed in the financial statements, since the end of the previous financial year, no Director has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the Director, or with a firm of which the Director is a member, or with a company in which the Director has a substantial financial interest, and no contract of significance to which the Company, its holding company, any of its subsidiary was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS OF DIRECTORS AND SUPERVISORS IN COMPETING BUSINESS

During the year and up to the date of this annual report, none of the Directors has any interest in business which competes or may compete with the business of the Group under the Listing Rules.

MANAGEMENT CONTRACTS

During the year, no contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed.

OPTIONS

The Group has no share option scheme.

Report of Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2009, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Capacity and nature of interests	Number of ordinary Shares held	Percentage of the Company's issued share capital
Pioneer Top Holdings Limited ("Pioneer Top") (Note (a))	Registered owner and beneficially owned	343,376,000	34.34%
Mr. Liu Xingxu (Note (a))	Deemed interest and interest in controlled company	343,376,000	34.34%
Go Power Investments Limited ("Go Power") (Note (b))	Registered owner and beneficially owned	280,624,000	28.06%
Ms. Yan Yunhua (Note (b))	Deemed interest and interest in controlled company	280,624,000	28.06%
Ms. Yan Yunhua	Registered owner and beneficially owned	300,000	0.03%

Notes:

- (a) Pioneer Top is an investment holding company established in the British Virgin Islands (the "BVI"). Mr. Liu Xingxu beneficially owns approximately 42% of the equity interest in Pioneer Top, and holds the remaining 58% of the equity interest in Pioneer Top in trust for seven beneficiaries, including approximately 16% for Mr. Li Buwen, our executive Director, and approximately 7% for Mr. Li Yushun, 7% for Mr. Ru Zhengtao, 7% for Mr. Wang Nairen and 7% for Mr. Zhang Qingjin, our senior management, and approximately 7% for Mr. Zhu Xingye and 7% for Mr. Shang Dewei, our employees. Liu Xingxu has the absolute discretion to exercise the voting rights held by Pioneer Top in the Company in accordance with the trust agreement.
- (b) Go Power is an investment holding company established in the BVI. Ms. Yan Yunhua beneficially owns approximately 12.74% of the equity interest in Go Power and holds approximately 87.26% of the equity interest in Go Power in trust for a total of 1,463 beneficiaries under the trust agreement. Ms. Yan Yunhua has the absolute discretion to exercise the voting rights held by Go Power in the Company in accordance with the trust agreement.

Save as disclosed above, as at 31 December 2009, no person, other than the Directors, whose interests are set out in the section "Directors' and chief executive's interests and short positions in shares and underlying shares and debentures" above, has an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded.

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group had the following continuing connected transactions, certain details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Mr. Liu Xingxu, Ms. Yan Yunhua and Mr. Li Buwen currently hold an aggregate of approximately 17.5% interest in Henan Xinlianxin Chemicals Group Co., Ltd. ("**XLX Chem**"), where their respective shareholdings are the largest in XLX Chem, and they have the largest influence through their shareholders' rights in the major decisions in XLX Chem. Therefore, XLX Chem, its subsidiaries and associates (collectively "**XLX Chem Group**") 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 rules of the SGX-ST (the "**Listing Manual**") in Singapore.

The following continuing connected transactions have been carried out by the Group during the year:

(a) Exempt continuing connected transactions

(i) *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 agreement to 31 December 2011.

The service fee income received by the Group from XLX Chem Group under this agreement amounted to approximately RMB77,000 for the year ended 31 December 2009.

(ii) *Lifting Services Framework Agreement*

The Group has 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 the Group on an as-need basis. The 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. The service expenses paid by the Group to XLX Chem Group under this agreement amounted to approximately RMB1,799,000 for the year ended 31 December 2009.

(b) Non-exempt continuing connected transactions

(i) *Utilities Supply Framework Agreement*

The Group has entered into the Utilities Supply Framework Agreement dated 20 October 2009 with XLX Chem Group, by which the Group has agreed to supply water, electricity and steam to XLX Chem and the 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. For the year ended 31 December 2009, the aggregate amount received by the Group from XLX Chem Group amounted to approximately RMB2,600,000 and has been accounted for as other income in the Group's consolidated statement of comprehensive income.

(ii) *Equipment Purchase Framework Agreement*

The Group has 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 the Group, including pipes, containers and high-pressure containers for production, and repair and maintenance. The 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. For the year ended 31 December 2009, the aggregate amount paid by the Group for the sourcing of equipment was approximately RMB6,474,000.

The independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that these continuing connected transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and
- (3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Board has received a letter from the auditors which has confirmed the matters required under Rule 14A.38 of the Listing Rules.

BANK LOANS AND OTHER BORROWINGS

Details of the bank loans and other borrowings of the Group are set out in note 28 to the financial statements.

Report of Directors

CORPORATE GOVERNANCE

The Company is committed to maintaining the highest standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 37 to 48 of this annual report.

SUBSIDIARY

Details of the Company's subsidiary are set out in note 17 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

RESPONSIBILITY OF DIRECTORS ON FINANCIAL STATEMENTS

The Companies Ordinance requires the Directors to prepare financial statements for each financial year. Such financial statements should give a true and fair view of the state of affairs of the Company and of the Group as at the balance sheet date of a particular year and on the profit and loss of the Company and the Group for the year then ended. In preparing the financial statements, the Directors should:

- (a) select and apply consistently appropriate accounting policies, make prudent, fair and reasonable judgement and estimation;
- (b) report the reasons for any seriously deviation from accounting practice; and
- (c) prepare the financial statements on going concern basis, unless it is inappropriate to assume the Company and the Group could continue to operate.

The Directors are responsible for the proper keeping of accounting record in order to secure assets of the Company and the Group. The Directors are also responsible for adopting reasonable measures to prevent and check any fraudulences and irregularities.

Report of Directors

AUDIT COMMITTEE

The Audit Committee (“**AC**”) carried out its functions including the following:

- Reviews the audit plans of the internal and external auditors of the Company, and reviews the internal auditors’ evaluation of the adequacy of the Company’s system of internal accounting controls and the assistance given by the Company’s management to the external and internal auditors;
- Reviews the quarterly and annual financial statements and the auditors’ report on the annual financial statements of the Company before their submission to the board of directors;
- Reviews effectiveness of the Company’s material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;
- Meets with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
- Reviews legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- Reviews the cost effectiveness and the independence and objectivity of the external auditors;
- Reviews the nature and extent of non-audit services provided by the external auditors;
- Recommends to the board of directors the external auditors to be nominated, approves the compensation of the external auditors, and reviews the scope and results of the audit;
- Reports actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate; and
- Reviews interested person transactions (also known as connected transactions) in accordance with the respective requirements of the stock exchanges.

The AC, having reviewed all non-audit services provided by the external auditors of the Company, is satisfied that the nature and extent of such services would not affect the independence of the external auditors. The AC has also conducted a review of interested person transactions.

The AC convened five meetings during the year with full attendance from all members. The AC has also met with internal and external auditors, without the presence of the Company’s management, at least once a year.

Further details regarding the AC are disclosed in the Corporate Governance Report in this annual report.

Report of Directors

AUDITORS

Ernst & Young LLP have expressed their willingness to accept reappointment as auditors.

On behalf of the board of Directors:

Liu Xingxu

Director

23 March 2010

Yan Yunhua

Director

STATEMENT BY DIRECTORS

We, Liu Xingxu and Yan Yunhua, being two of the Directors of China XLX Fertiliser Ltd., do hereby state that, in the opinion of the Directors,

- (i) the accompanying statements of financial position, consolidated statement of comprehensive income, statements of changes in equity and consolidated statement of cash flows together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and
- (ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of Directors:

Liu Xingxu

Director

23 March 2010

Yan Yunhua

Director

Independent Auditors' Report

To the shareholders of China XLX Fertiliser Ltd.

(Incorporated in Singapore with limited liability)

We have audited the accompanying financial statements of China XLX Fertiliser Ltd. (the "**Company**") and its subsidiary (collectively, the "**Group**"), which comprise the consolidated and company statements of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, consolidated and company statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the "**Act**") and Singapore Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

OPINION

In our opinion,

- (i) the consolidated financial statements and the statement of financial position of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2009 and the results and cash flows of the Group for the year then ended; and
- (ii) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP

*Public Accountants and
Certified Public Accountants*
Singapore

23 March 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
REVENUE	6	2,329,607	2,084,943
Cost of sales		(2,014,212)	(1,603,073)
Gross profit		315,395	481,870
Other income and gains	6	11,661	13,664
Selling and distribution expenses		(16,902)	(20,722)
General and administrative expenses		(110,536)	(91,290)
Other expenses		(11,587)	(6,963)
Finance costs	8	(36,522)	(26,791)
PROFIT BEFORE TAX	7	151,509	349,768
Income tax expense	11	(32,285)	(18,094)
Net profit attributable to owners of the parent	12	119,224	331,674
Other comprehensive income			
Gain/(loss) on hedging instruments	21	(19,807)	19,807
Total comprehensive income attributable to owners of the parent		99,417	351,481
Earnings per share attributable to equity holders of the parent (RMB cents per share)			
Basic and diluted	14	11.92	33.17

Consolidated Statement of Financial Position

31 December 2009

		31 December 2009 RMB'000	31 December 2008 RMB'000 (Restated)	1 January 2008 RMB'000 (Restated)
	Notes			
ASSETS				
NON-CURRENT ASSETS				
Property, plant and equipment	15	2,302,013	1,616,011	974,266
Prepaid land lease payments	16	71,192	72,628	47,448
Prepayments	20	6,515	277,882	63,296
Total non-current assets		2,379,720	1,966,521	1,085,010
CURRENT ASSETS				
Inventories	18	221,911	234,965	178,525
Due from related companies	23	–	–	1,998
Trade receivables	19	568	7,667	1,793
Bills receivable	19	40,708	18,580	5,528
Prepayments	20	58,476	28,156	44,999
Deposits and other receivables	20	36,871	6,094	4,303
Derivative financial assets	21	–	19,807	–
Income tax recoverable		11,334	–	–
Pledged deposits	22, 25	21,173	–	3,508
Cash and cash equivalents	22	139,796	200,114	506,810
Total current assets		530,837	515,383	747,464
Total assets		2,910,557	2,481,904	1,832,474
EQUITY AND LIABILITIES				
CURRENT LIABILITIES				
Due to related companies	23	1,517	1,676	1,682
Trade payables	24	47,435	47,760	27,685
Bills payable	25	41,346	–	5,000
Accruals and other payables	26	299,500	259,411	240,696
Income tax payable		102	220	930
Deferred grants	27	8,995	9,740	8,240
Interest-bearing bank and other borrowings	28	110,000	145,000	287,000
Total current liabilities		508,895	463,807	571,233
Net current assets		21,942	51,576	176,231
TOTAL ASSETS LESS CURRENT LIABILITIES		2,401,662	2,018,097	1,261,241

Consolidated Statement of Financial Position

31 December 2009

		31 December 2009	31 December 2008	1 January 2008
	Notes	RMB'000	RMB'000	RMB'000
			(Restated)	(Restated)
NON-CURRENT LIABILITIES				
Accruals	26	65,035	25,600	–
Interest-bearing bank and other borrowings	28	835,152	522,974	90,348
Deferred tax liabilities	29	26,832	18,617	–
Total non-current liabilities		927,019	567,191	90,348
Total liabilities		1,435,914	1,030,998	661,581
Net assets		1,474,643	1,450,906	1,170,893
Equity attributable to owners of the parent				
Issued capital	30	836,671	836,671	836,671
Statutory reserve fund	31	94,200	77,770	40,514
Hedging reserve	31	–	19,807	–
Retained profits	31	514,550	440,731	222,240
Proposed final dividend	13	29,222	75,927	71,468
Total equity		1,474,643	1,450,906	1,170,893
Total equity and liabilities		2,910,557	2,481,904	1,832,474

Statements of Changes in Equity

Year ended 31 December 2009

Group

	Notes	Issued capital (note 30) RMB'000	Statutory reserve fund (note 31) RMB'000	Hedging reserve (note 21) RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2008							
As previously reported		772,328	40,514	–	343,326	–	1,156,168
Prior year adjustments	2.4	64,343	–	–	(49,618)	–	14,725
Allocation of retained profits		–	–	–	(71,468)	71,468	–
As restated		836,671	40,514	–	222,240	71,468	1,170,893
Total comprehensive income for the year (restated)							
		–	–	19,807	331,674	–	351,481
Final 2007 dividend declared		–	–	–	–	(71,468)	(71,468)
Transfer to statutory reserve fund	31	–	37,256	–	(37,256)	–	–
Proposed final 2008 dividend (restated)	13	–	–	–	(75,927)	75,927	–
At 31 December 2008 (restated)		836,671	77,770	19,807	440,731	75,927	1,450,906
At 1 January 2009							
As previously reported		772,328	77,770	19,807	581,001	–	1,450,906
Prior year adjustments	2.4	64,343	–	–	(64,343)	–	–
Allocation of retained profits		–	–	–	(75,927)	75,927	–
As restated		836,671	77,770	19,807	440,731	75,927	1,450,906
Total comprehensive income for the year							
		–	–	(19,807)	119,224	–	99,417
Transfer to statutory reserve fund	31	–	16,430	–	(16,430)	–	–
Final 2008 dividend declared		–	–	–	–	(75,680)	(75,680)
Transfer from proposed final 2008 dividend to retained profits		–	–	–	247	(247)	–
Proposed final 2009 dividend	13	–	–	–	(29,222)	29,222	–
At 31 December 2009		836,671	94,200	–	514,550	29,222	1,474,643

Statements of Changes in Equity

Year ended 31 December 2009

Company

	Notes	Issued capital (note 30) RMB'000	Hedging reserve (note 21) RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2008						
As previously reported		772,328	–	63,547	–	835,875
Prior year adjustments	2.4	64,343	–	(64,343)	–	–
Allocation of retained profits		–	–	(71,468)	71,468	–
As restated		836,671	–	(72,264)	71,468	835,875
Total comprehensive income for the year (restated)						
		–	19,807	51,219	–	71,026
Final 2007 dividend declared		–	–	–	(71,468)	(71,468)
Proposed 2008 final dividend (restated)	13	–	–	(75,927)	75,927	–
At 31 December 2008 (restated)		836,671	19,807	(96,972)	75,927	835,433
At 1 January 2009						
As previously reported		772,328	19,807	41,414	–	833,549
Prior year adjustments	2.4	64,343	–	(62,459)	–	1,884
Allocation of retained profits		–	–	(75,927)	75,927	–
As restated		836,671	19,807	(96,972)	75,927	835,433
Total comprehensive income for the year						
		–	(19,807)	56,141	–	36,334
Final 2008 dividend declared		–	–	–	(75,680)	(75,680)
Transfer from proposed final 2008 dividend to retained profits		–	–	247	(247)	–
Proposed 2009 final dividend	13	–	–	(29,222)	29,222	–
At 31 December 2009		836,671	–	(69,806)	29,222	796,087

The difference between the proposed and declared final 2008 dividend of RMB247,000 represented the exchange difference arising from the appreciation of Renminbi against Singapore dollar which was realised upon payment and was credited to the retained profits as at 31 December 2009.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		151,509	349,768
Adjustments for:			
Amortisation of prepaid land lease payments	7	1,436	1,388
Depreciation of property, plant and equipment	7	124,536	78,465
Loss on disposal of property, plant and equipment	7	712	1,648
Write-off of property, plant and equipment	7	–	694
Amortisation of deferred grants	6	(1,545)	–
Fair value loss/(gain) on derivative financial assets	6, 7	8,760	(1,763)
Provision for inventory obsolescence	7	–	6,000
Write-back for doubtful trade receivables	7	–	(83)
Write-off of trade receivables	7	–	75
Interest income	6	(1,328)	(2,872)
Finance costs	8	36,522	26,791
		320,602	460,111
Decrease/(increase) in inventories		13,054	(62,440)
Decrease in amounts due from related companies		–	1,998
Increase in trade and bills receivables		(15,029)	(18,918)
Decrease/(increase) in prepayments		(30,320)	17,386
Increase in deposits and other receivables		(30,777)	(1,791)
Decrease in amounts due to related companies		(159)	(6)
Increase in trade and bills payables		41,021	15,075
Increase/(decrease) in accruals and other payables		33,899	(19,246)
Cash flows generated from operations		332,291	392,169
Government grant received	27	800	1,500
Interest paid	8	(41,522)	(26,791)
Interest received		1,328	2,872
Tax paid		(35,522)	(187)
Net cash inflow from operating activities		257,375	369,563

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of property, plant and equipment		375	754
Purchases of property, plant and equipment	32(i)	(489,633)	(879,998)
Purchases of land use rights		–	(21,444)
Decrease/(increase) in pledged time deposits		(21,173)	3,508
Net cash outflow from investing activities		(510,431)	(897,180)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares	13	(75,680)	(71,468)
Proceeds from loans and borrowings		1,170,299	642,626
Repayments of loans and borrowings		(893,121)	(352,000)
Proceeds from/(consideration for) termination of derivative financial assets	7, 21	(8,760)	1,763
Net cash inflow from financing activities		192,738	220,921
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		200,114	506,810
Cash and cash equivalents at end of year		139,796	200,114
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	22	139,796	189,429
Non-pledged time deposits with original maturity of less than three months when acquired	22	–	10,685
		139,796	200,114

Statement of Financial Position

31 December 2009

		31 December 2009 RMB'000	31 December 2008 RMB'000 (Restated)	1 January 2008 RMB'000 (Restated)
ASSETS				
NON-CURRENT ASSET				
Investment in a subsidiary	17	800,000	800,000	400,000
CURRENT ASSETS				
Due from a subsidiary	17	8,851	309,420	–
Deposits and other receivables	20	–	1,509	551
Derivative financial assets	21	–	19,807	–
Cash and cash equivalents	22	2,835	23,037	440,332
Total current assets		11,686	353,773	440,883
Total assets		811,686	1,153,773	840,883
EQUITY AND LIABILITIES				
CURRENT LIABILITIES				
Accruals		15,497	10,563	4,078
Income tax payable		102	220	930
Total current liabilities		15,599	10,783	5,008
Net current assets/(liabilities)		(3,913)	342,990	435,875
NON-CURRENT LIABILITIES				
Interest-bearing bank and other borrowings	28	–	307,557	–
Total liabilities		15,599	318,340	5,008
Net assets		796,087	835,433	835,875
Equity attributable to owners of the parent				
Issued capital	30	836,671	836,671	836,671
Hedging reserve	31	–	19,807	–
Accumulated losses	31	(69,806)	(96,972)	(72,264)
Proposed final dividend	13	29,222	75,927	71,468
Total equity		796,087	835,433	835,875
Total equity and liabilities		811,686	1,153,773	840,883

Notes to Financial Statements

1. CORPORATE INFORMATION

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are dual primary listed on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and the SEHK. The registered office of the Company is located at 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721. The principal place of business of the Group is located at Xinxiang High Technology Development Zone, West Zone, Henan Province, the People’s Republic of China (the “**PRC**”). The principal activity of the Company consists of investment holding. The principal activities of the Company’s subsidiary are manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Singapore Financial Reporting Standards (“SFRSs”) (which include all Singapore Financial Reporting Standards and Singapore Financial Reporting Interpretations (“INT SFRSs”)) issued by the Accounting Standards Council of Singapore.

These financial statements have been prepared on a historical cost basis except as set out in the accounting policies below. These financial statements are presented in Renminbi (“**RMB**”) and all values are rounded to the nearest thousand (“**RMB’000**”) except when otherwise indicated.

2.2 IMPACT OF NEW AND REVISED SINGAPORE FINANCIAL REPORTING STANDARDS

The accounting policies adopted are consistent with those of the previous financial year except as follows:

On 1 January 2009, the Group adopted the following standards and interpretations mandatory for annual financial periods beginning on or after 1 January 2009.

- SFRS 1 *Presentation of Financial Statements* (Revised)
- Amendments to SFRS 18 *Revenue*
- Amendments to SFRS 23 *Borrowing Costs*
- Amendments to SFRS 32 *Financial Instruments: Presentation* and SFRS 1 *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation
- Amendments to SFRS 101 *First-time Adoption of Financial Reporting Standards* and SFRS 27 *Consolidated and Separate Financial Statements* – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- Amendments to SFRS 102 *Share-based Payment* – Vesting Conditions and Cancellations
- Amendments to SFRS 107 *Financial Instruments: Disclosures*
- SFRS 108 *Operating Segments*
- Improvements to SFRSs issued in 2008
- INT SFRS 113 *Customer Loyalty Programmes*
- INT SFRS 116 *Hedges of a Net Investment in a Foreign Operation*
- Amendments to INT SFRS 109 *Reassessment of Embedded Derivatives* and SFRS 39 *Financial Instruments: Recognition and Measurement* – Embedded Derivatives
- INT SFRS 118 *Transfers of Assets from Customers*

Notes to Financial Statements

2.2 IMPACT OF NEW AND REVISED SINGAPORE FINANCIAL REPORTING STANDARDS (CONTINUED)

Although the revised SFRS 23 Borrowing Costs is effective for annual periods beginning on or after 1 January 2009, the Group has elected to early adopt it with effect from 1 August 2008. The adoption of these new and revised SFRSs, except for SFRS 1 Presentation of Financial Statements and SFRS 23 Borrowing Costs, as described below, had no material effect on the results and financial position of the financial statements, or their presentation.

SFRS 1 Presentation of Financial Statements – Revised presentation

The revised SFRS 1 separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented in the statement of other comprehensive income. In addition, the standard introduces the statement of comprehensive income which presents income and expense recognised in the period. This statement may be presented in one single statement, or two linked statements. The Group has elected to present one single statement.

SFRS 23 Borrowing Costs

SFRS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. In accordance with the transitional provisions in the revised standard, the Group applied this revised standard to capitalise the borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after 1 August 2008 instead of the original effective date of 1 January 2009. This change in accounting policy had no material effect on how the results for the year ended 31 December 2008 have been prepared and presented. The early adoption has resulted in capitalisation of borrowing costs of RMB5,000,000 for the year ended 31 December 2009 (note 8).

SFRS 108 Operating Segments

SFRS 108 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary and secondary reporting segments of the Group. The Group determined that the reportable operating segments are the same as the business segments previously identified under SFRS 14 *Segment Reporting*. Additional disclosures about each of the segments are shown in note 5, including revised comparative information.

Notes to Financial Statements

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The Group has not adopted the following standards and interpretations that have been issued but are not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS 27 <i>Consolidated and Separate Financial Statements</i>	1 July 2009
Amendments to SFRS 39 <i>Financial Instruments:</i>	
<i>Recognition and Measurement – Eligible Hedged Item</i>	1 July 2009
Revised SFRS 103 <i>Business Combinations</i>	1 July 2009
Amendments to SFRS 105 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 July 2009
INT SFRS 117 <i>Distributions of Non-cash Assets to Owners</i>	1 July 2009
Improvements to SFRSs issued in 2009:	
– Amendments to SFRS 38 <i>Intangible Assets</i>	1 July 2009
– Amendments to SFRS 102 <i>Share-based Payment</i>	1 July 2009
– Amendments to SFRS 108 <i>Operating Segments</i>	1 July 2009
– Amendments to INT SFRS 109 <i>Reassessment of Embedded Derivatives</i>	1 July 2009
– Amendments to INT SFRS 116 <i>Hedges of a Net Investment in a beginning</i>	1 July 2009
– Amendments to SFRS 1 <i>Presentation of Financial Statements</i>	1 January 2010
– Amendments to SFRS 7 <i>Statement of Cash Flows</i>	1 January 2010
– Amendments to SFRS 17 <i>Leases</i>	1 January 2010
– Amendments to SFRS 36 <i>Impairment of Assets</i>	1 January 2010
– SFRS 39 <i>Financial Instruments: Recognition and Measurement</i>	1 January 2010
– Amendments to SFRS 105 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	1 January 2010
– Amendments to SFRS 108 <i>Operating Segments</i>	1 January 2010

The directors expect that the adoption of the other standards and interpretations above will have no material impact on the financial statements in the period of initial application.

Notes to Financial Statements

2.4 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE AMOUNTS

Prior year adjustments have been made to restate certain comparative amounts and to correct errors in prior periods with the effects of decreasing the Group's retained profits at 1 January 2008 and 31 December 2008 by RMB49,618,000 and RMB64,343,000, respectively, decreasing the Group's net profit for the year ended 31 December 2008 by RMB14,725,000, decreasing the Company's retained profits at 1 January 2008 and 31 December 2008 by RMB64,343,000 and RMB62,459,000, respectively, and decreasing the Company's net profit for the year ended 31 December 2008 by RMB1,884,000. In addition, certain comparative amounts have been reclassified to conform with the current year's presentation and accounting treatment.

The effects of the correction of errors on the comparative figures, which have been reflected by the prior year adjustments and the reclassification of comparative amounts, are summarised as follows:

- (a) Effects on the Group's consolidated statement of financial position as at 31 December 2008 and 1 January 2008

Effect of errors (Increase/(decrease))	Effect of prior year adjustments Adjustment in respect of		Total RMB'000
	Fair value loss of derivative financial liabilities RMB'000 (note (i))	write-back of prior year overprovided withholding tax RMB'000 (note (ii))	
As at 31 December 2008			
Equity			
Issued capital	64,343	–	64,343
Retained profits	(64,343)	–	(64,343)
			–
As at 1 January 2008			
Equity			
Issued capital	64,343	–	64,343
Retained profits	(64,343)	14,725	(49,618)
			14,725

- (b) Effects on the Group's consolidated statement of comprehensive income for the year ended 31 December 2008

Effect of errors (Increase/(decrease))	Effect of prior year adjustments Adjustment in respect of write-back of prior year overprovided withholding tax RMB'000 (note (ii))
Increase in tax	14,725

Notes to Financial Statements

2.4 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE AMOUNTS (CONTINUED)

(c) Effects on the Company's statement of financial position as at 31 December 2008 and 1 January 2008

Effect of errors (Increase/(decrease))	Effect of prior year adjustments		Total RMB'000
	Fair value loss of derivative financial liabilities RMB'000 (note (i))	Write-back of finance expenses RMB'000 (note (iii))	
As at 31 December 2008			
Assets			
Due from a subsidiary	–	(1,884)	(1,884)
Equity			
Issued capital	64,343	–	64,343
Retained profits	(64,343)	1,884	(62,459)
			–
As at 1 January 2008			
Equity			
Issued capital	64,343	–	64,343
Retained profits	(64,343)	–	(64,343)
			–

(d) Effects on the Company's statement of comprehensive income for the year ended 31 December 2008

Effect of errors (Increase/(decrease))	Effect of prior year adjustments Write-back of finance expenses RMB'000 (note (iii))
Decrease in finance expenses	1,884

Notes to Financial Statements

2.4 PRIOR YEAR ADJUSTMENTS AND COMPARATIVE AMOUNTS (CONTINUED)

Notes:

- (i) Fair value loss of derivative financial liabilities of RMB64,343,000

In 2006, the Company issued certain convertible loans of an aggregate amount of USD7,120,000 (approximately RMB55,598,000) in consideration for the right to convert the full sum of the convertible loan into fully paid new ordinary shares of the Company. On 11 May 2007, the convertible loans were converted into 175,680,000 new ordinary shares but the change in fair value of the embedded derivative component of the convertible loans of RMB64,343,000 was not accounted for during the year ended 31 December 2007. The fair value of the convertible loans at the date of its conversion into ordinary shares of the Company was understated by RMB64,343,000 and the share capital was understated by RMB64,343,000. Accordingly, an adjustment was made to reduce the retained profits and increase the share capital by RMB64,343,000 as at 1 January 2008 and 31 December 2008.

- (ii) Withholding tax of RMB14,725,000

During the year ended 31 December 2007, an overprovision amounting to RMB14,725,000 for withholding tax on the net profit of the Group's PRC subsidiary generated for that year was wrongly made since pursuant to the PRC Corporate Income Tax Law, such withholding tax should only be levied for earnings generated from 1 January 2008 onwards and designated to be distributed to foreign investors. Such overprovided withholding tax of RMB14,725,000 was written back and credited to the consolidated statement of comprehensive income for the year ended 31 December 2008. An adjustment was made to reverse such overprovided withholding tax of RMB14,725,000 in the year the provision was originally made and accordingly, the retained profits as at 1 January 2008 were increased and the net profit for the year ended 31 December 2008 was decreased by RMB14,725,000.

- (iii) Write-back of finance expenses of RMB1,884,000

During the year ended 31 December 2008, certain bank loans were obtained by the Company to finance the construction of the subsidiary's factory premises and the related interest expenses were wrongly charged to the Company's statement of comprehensive income. As such, an adjustment was made to reallocate such interest expenses to the subsidiary and accordingly, the Company's net profit for the year ended 31 December 2008 was increased by RMB1,884,000.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at the reporting date. The financial statements of the subsidiary are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intragroup transactions that are recognised in assets, are eliminated in full.

Consolidation of the subsidiary in the PRC is based on the subsidiary's financial statements prepared in accordance with SFRS. Profits reflected in the financial statements prepared in accordance with SFRS may differ from those reflected in the PRC statutory financial statements of the subsidiary, prepared for PRC financial reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiary are based on the amounts stated in the PRC statutory financial statements.

Functional currency

The Group's principal operations are conducted in the PRC. Management has determined the currency of the primary economic environment in which the Group operates, i.e., functional currency, to be RMB. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions

Transactions in foreign currencies are measured and recorded in RMB at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the respective reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the reporting date are recognised in the consolidated statements of comprehensive income except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in equity as foreign currency translation reserve in the consolidated statement of financial position and recognised in the consolidated statement of comprehensive income on disposal of the foreign operation.

Subsidiaries

A subsidiary is an entity over which the Group has the power to govern the financial and operating policies so as to obtain benefits from its activities. The Group generally has such power when it directly or indirectly, holds more than 50% of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

The results of the subsidiary are included in the Company's statement of comprehensive income to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - (i) controls, is controlled by, or is under common control with, the entity (this includes parents, subsidiaries and fellow subsidiaries);
 - (ii) has an interest in the entity that gives it significant influence over the entity; or
 - (iii) has joint control over the entity;
- (b) the party is an associate (as defined in SFRS 28 *Investments in Associates*) of the entity;
- (c) the party is a joint venture in which the entity is a venturer (as defined in SFRS 31 *Interests in Joint Ventures*);
- (d) the party is a member of the key management personnel of the entity or its parent;
- (e) the party is a close member of the family of any individual referred to in (a) or (d);
- (f) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or
- (g) the party is a post-employment benefit plan for the benefit of employees of the entity, or of any entity that is a related party of the entity.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of comprehensive income in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

	Years	Residual value
Buildings	15 – 25	3 to 10%
Other fixtures and structures	15 – 25	3 to 10%
Plant and machinery	8 – 15	3 to 10%
Office equipment and furniture	5	3 to 10%
Motor vehicles	5	3 to 10%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of comprehensive income in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings and plant and machinery under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment or investment properties when completed and ready for use.

Prepaid land lease payments

Prepaid land lease payments are initially measured at cost. Following initial recognition, prepaid land lease payments are measured at cost less accumulated amortisation and accumulated impairment losses. The prepaid land lease payments are amortised on a straight-line basis over the lease term of 50 years.

The amortisation period and method are reviewed at each financial year end. The amortisation expense is recognised in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment assessment for an asset is required, the Group makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

Impairment losses of continuing operations are recognised in the statement of comprehensive income.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset previously. Such reversal is recognised in the statement of comprehensive income and the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

Financial assets are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received and any cumulative gain or loss that has been recognised directly in equity is recognised in the statement of comprehensive income.

All regular way purchases and sales of financial assets are recognised or derecognised on the trade date i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace concerned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (Continued)

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

Available-for-sale financial assets

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

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

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis; and option pricing models or other valuation models.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss is recognised in the statement of comprehensive income.

When the asset becomes uncollectible, the carrying amount of an impaired financial asset is reduced directly or if an amount was charged to the allowance account, the amounts charged to the allowance account are written off against the carrying value of the financial asset.

To determine whether there is objective evidence that an impairment loss on financial assets has been incurred, the Group considers factors such as the probability of insolvency or significant financial difficulties of the debtor and default or significant delay in payments.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that the carrying amount of the asset does not exceed its amortised cost at the reversal date. The amount of reversal is recognised in the statement of comprehensive income.

Assets carried at cost

If there is objective evidence (such as significant adverse changes in the business environment where the issuer operates, probability of insolvency or significant financial difficulties of the issuer) that an impairment loss on financial assets carried at cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

Available-for-sale financial assets

Significant or prolonged decline in fair value below cost, significant financial difficulties of the issuer or obligor, and the disappearance of an active trading market are considerations to determine whether there is objective evidence that investment securities classified as available-for-sale financial assets are impaired.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of comprehensive income, is transferred from equity to the statement of comprehensive income. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the statement of comprehensive income. Reversals of impairment losses on debt instruments are reversed through the statement of comprehensive income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the statement of comprehensive income.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of SFRS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade, bills and other payables, amounts due to related companies, deferred grants and interest-bearing loans and borrowings.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by SFRS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of comprehensive income. The net fair value gain or loss recognised in the statement of comprehensive income does not include any interest charged on these financial liabilities.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is extinguished. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise unpledged bank deposits and cash and bank balances and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including short-term deposits, which are not restricted as to use.

Inventories

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

Raw materials – purchase cost on a weighted average basis.

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

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic resources will be required to settle the obligation and the amount of the obligation can be estimated reliably.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic resources will be required to settle the obligation, the provision is reversed. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Government grant

Government grant is received from the local PRC government on a discretionary basis as determined by the government. It is recognised at its fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised in the statement of comprehensive income as an item under "Other income" over the period necessary to match them on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is recognised as deferred capital grant on the statement of financial position and is amortised to the statement of comprehensive income over the expected useful life of the relevant asset by equal annual instalments.

Trade and other receivables

Trade and other receivables are classified and accounted for as loans and receivables under SFRS 39.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs are generally recognised in the statement of comprehensive income as incurred. Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalisation of borrowing costs commences when the activities to prepare the assets for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are ready for their intended use or sale.

In transitioning to SFRS 23 (Amendments), the Group has applied SFRS 23 (Amendments) on 1 August 2008 to borrowing costs relating to all qualifying assets with the commencement date for capitalisation on or after that date.

Employee benefits – pension benefits

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary is required to contribute a certain percentage of their payroll costs as stipulated by the PRC regulations to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

The Company makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme. Contributions to national pension schemes are recognised as an expense in the period in which the related service is performed.

Pension contributions are recognised as an expense as they become payable in accordance with the rules of the relevant schemes.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the statement of comprehensive income on the straight-line basis over the lease terms.

Revenue recognition

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

Sale of goods

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

Interest income

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

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

Income tax comprises current and deferred tax. Income tax is recognised in the statement of comprehensive income, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of each reporting period.

Deferred tax

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (Continued)

Value-added-tax ("VAT")

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

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

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

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

Segment reporting

For management purposes, the Group is organised into operating segments based on its products and the segment results are reported to the management of the Company who regularly reviews the segment results in order to allocate resources to the segments and to assess the segment performance. Additional disclosures on each of these segments are shown in note 5, including the factors used to identify the reportable segments and the measurement basis of segment information.

Share capital and share issue expenses

Proceeds from issuance of ordinary shares are recognised as share capital in equity. Incremental costs directly attributable to the issuance of ordinary shares are deducted against share capital.

Contingencies

A contingent liability or asset is a possible obligation or asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of uncertain future event(s) not wholly within the control of the Group.

Contingent liabilities and assets are not recognised in the statement of financial position of the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging activities

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

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

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

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

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment;
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or the foreign currency risk in an unrecognised firm commitment;
- Hedges of a net investment in a foreign operation; or
- Economic hedges that economically hedge monetary assets and liabilities denominated in foreign currencies.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Notes to Financial Statements

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments and hedging activities (Continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Changes in the fair value of the hedging instrument designated as a cash flow hedge are recognised directly in equity as a hedging reserve to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised immediately in the statement of comprehensive income.

Amounts recognised in equity is transferred to the statement of comprehensive income in the period that the hedged item affects the statement of comprehensive income, such as when the hedged financial income or financial expense is recognised or when a forecast sale occurs.

When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognised in equity are transferred to the statement of comprehensive income. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains in equity until the forecast transaction or firm commitment occurs.

Derivatives that are not designated or do not qualify for hedge accounting

Fair value changes on these derivatives are recognised in the statement of comprehensive income when the changes arise.

Hedging reserve

Hedging reserve records the portion of the fair value changes on derivatives that are designated as hedging instruments in cash flow hedges that are determined to be effective.

Dividends

As at 1 January 2008 and 31 December 2008, final dividends proposed by the directors of RMB71,468,000 and RMB75,927,000, respectively, were included in retained profits in the statement of financial position and were recognised as a liability in the period in which the dividends were approved by the Company's shareholders.

During the year ended 31 December 2009, in order to comply with the disclosure requirement of the Hong Kong Companies Ordinance, the final dividends proposed were reclassified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability. The directors believe that the segregation provides more reliable and relevant information on the Group's financial position.

This change in accounting policy had no effect on how the results for the current or prior accounting periods have been prepared, but certain comparative amounts within equity have been reclassified to conform with the current year's presentation.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of each reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Judgements made in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Income taxes

The Group has exposure to income taxes in Singapore and the PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amounts of the Group's net income tax recoverable and deferred tax liabilities at 31 December 2009 were RMB10,903,000 and RMB26,832,000, respectively (2008: income tax payable and deferred tax liabilities were RMB220,000 and RMB18,617,000, respectively).

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

Useful lives of plant and machinery

The cost of plant and machinery for the production of fertilisers is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production lines to be 8 to 15 years. Changes in the expected level of usage and technological development could impact the economic useful lives of the plant and machinery, therefore depreciation charges could be revised in line with revisions to expected economic useful lives. The carrying amount of the Group's plant and machinery at 31 December 2009 was RMB1,613,354,000 (2008: RMB669,736,000).

5. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on its products, and has three reportable operating segments as follows:

(i) **Urea**

Urea is an effective, neutral nitrogen-based fertiliser which is suitable for various crops and land. It will not leave any residue in the soil, and provides nitrogen to crops and serves as a raw material for agricultural fertilisers, plastic, resin, coating materials and pharmaceuticals industries.

(ii) **Compound fertiliser**

Compound fertiliser is a type of round, hard, colourful granulated fertiliser and has various distinctive characteristics such as high concentration, high absorption rate by crops, and enhancement of resistance of crops to diseases, insects, droughts and lodges. The use of compound fertiliser generally improves the quality of crops and the productivity of the land. It can be used as ground fertiliser or added fertiliser and is suitable for the growing of wheat, paddy, corn, peanuts, tobacco, fruit trees, vegetables and cotton.

(iii) **Methanol**

Methanol is a colourless, tasteless, highly volatile, and flammable liquid alcohol that is toxic if swallowed. It is an important organic chemical raw material which is mainly used to produce formaldehyde, which is a vital raw material for producing various kinds of resin. Methanol is also a good fuel and has been used as an energy resource in some power stations. Methanol is also widely used in the industrial production of synthetic fibre, plastic, pharmaceutical, pesticides, dye and synthetic protein.

In addition to the three main operating segments, the Group is also involved in the production of liquid ammonia and ammonia solution.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Group financing (including finance costs) and income taxes are managed on a group basis and are not allocated to operating segments.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

Notes to Financial Statements

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Allocation basis

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly other income, other expenses, financial income and expenses 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. Assets of the Group are utilised interchangeably between the different segments and there is no reasonable basis to allocate liabilities of the Group between the different segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by operating segments.

Geographical segments

There is no geographical segment information as the Group operates in Mainland China only.

Information about the major customer

During the years ended 31 December 2009 and 2008, sales to the Group's major customer amounted to RMB174,034,000 (or 7.5% of the total sales) and RMB237,031,000 (or 11.4% of the total sales), respectively.

Segment profit definition

The directors of the Company are of the opinion that the segment profit/(loss) is the gross profit/(loss).

Group

Year ended 31 December 2009	Compound				Elimination RMB'000	Total RMB'000
	Urea RMB'000	fertiliser RMB'000	Methanol RMB'000	Others RMB'000		
REVENUE						
Sales to external customers	1,706,662	438,158	175,854	8,933	–	2,329,607
Intersegment sales	130,456	–	–	6,382	(136,838)	–
Total revenue	1,837,118	438,158	175,854	15,315	(136,838)	2,329,607
Segment profit/(loss)	336,231	9,689	(26,812)	(3,713)	–	315,395
Unallocated expenses, net						(128,692)
Financial expenses, net						(35,194)
Profit before tax						151,509
Income tax expense						(32,285)
Net profit attributable to owners of the parent						119,224

Notes to Financial Statements

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended	Urea	Compound fertiliser	Methanol	Others	Elimination	Total
31 December 2008	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
REVENUE						
Sales to external customers	1,155,540	708,268	214,836	6,299	–	2,084,943
Intersegment sales	152,297	–	–	4,162	(156,459)	–
Total revenue	1,307,837	708,268	214,836	10,461	(156,459)	2,084,943
Segment profit/(loss)	269,261	173,762	42,401	(3,554)	–	481,870
Unallocated expenses, net						(108,183)
Financial expenses, net						(23,919)
Profit before tax						349,768
Income tax expense						(18,094)
Net profit attributable to owners of the parent						331,674

6. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts and the value of services rendered.

An analysis of the Group's revenue, other income and gains is as follows:

	2009 RMB'000	2008 RMB'000
Revenue		
Sale of goods	2,329,607	2,084,943
Other income and gains		
Bank interest income	1,328	2,872
Sale of by-products	2,378	5,564
Service fee income from related parties	77	82
Amortisation of deferred grants (note 27)	1,545	–
Net fair value gain on derivative financial assets	–	1,763
Subsidy income	4,245	1,355
Others	2,088	2,028
	11,661	13,664

Notes to Financial Statements

7. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2009 RMB'000	2008 RMB'000
Cost of inventories sold [#]		2,014,212	1,597,073
Provision for inventory obsolescence		–	6,000
		2,014,212	1,603,073
Depreciation	15	124,536	78,465
Amortisation of prepaid land lease payments	16	1,436	1,388
Minimum lease payments under operating leases:			
Land		1,948	1,248
Buildings		1,238	597
		3,186	1,845
Auditors' remuneration		1,057	1,276
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and bonuses		75,882	74,827
Contribution to defined contribution plans		14,252	8,309
Welfare expenses		4,370	2,549
		94,504	85,685
Less: Write-back of accrued welfare expenses		–	(6,595)
		94,504	79,090
Write-back for doubtful trade receivables	19	–	(83)
Write-off of trade receivables		–	75
Realised exchange loss *		–	1,667
Unrealised exchange loss *		562	1,436
Loss on disposal of property, plant and equipment *		712	1,648
Write-off of property, plant and equipment *		–	694
Fair value loss on derivative financial assets *		8,760	–

* Included in "Other expenses" disclosed in the consolidated statement of comprehensive income.

Included wages and salaries of RMB17,283,642 (2008: RMB15,190,093) disclosed under employee benefit expenses and depreciation charges of RMB118,341,364 (2008: RMB74,027,326) disclosed under depreciation.

Notes to Financial Statements

8. FINANCE COSTS

The Group's finance costs are analysed as follows:

	2009 RMB'000	2008 RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	41,079	26,387
Interest on government loans	443	404
	41,522	26,791
Less: Interest capitalised (note 32 (ii))	(5,000)	–
	36,522	26,791

9. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2009 RMB'000	2008 RMB'000
Fees	700	700
Other emoluments:		
Salaries, allowances and benefits in kind	2,292	2,301
Performance related bonuses	–	5,407
Pension scheme contributions	48	39
	2,340	7,747
	3,040	8,447

(a) Independent non-executive directors

The fees paid to independent non-executive directors were as follows:

	2009 RMB'000	2008 RMB'000
Ong Kian Guan	250	250
Li Shengxiao	225	225
Ong Wei Jin	225	225
	700	700

There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2009 (2008: Nil).

Notes to Financial Statements

9. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

Year ended 31 December 2009	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contribution RMB'000	Total remuneration RMB'000
Liu Xingxu	–	884	–	16	900
Yan Yunhua	–	704	–	16	720
Li Buwen	–	704	–	16	720
	–	2,292	–	48	2,340

Year ended 31 December 2008	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contribution RMB'000	Total remuneration RMB'000
Liu Xingxu	–	887	2,163	13	3,063
Yan Yunhua	–	707	1,622	13	2,342
Li Buwen	–	707	1,622	13	2,342
	–	2,301	5,407	39	7,747

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2009 (2008: Nil).

During the year, no remuneration was paid by the Group to the Directors as an inducement to join or upon joining the Group or as compensation for loss of office.

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees in the Group for the year included three (2008: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2008: two) non-directors, highest paid employees for the year are as follows:

	2009 RMB'000	2008 RMB'000
Salaries, allowances and benefits in kind	258	457
Performance related bonuses	700	441
Pension scheme contributions	32	142
	990	1,040

Notes to Financial Statements

10. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

The number of non-director, highest paid employees whose remuneration fell within the following bands are as follows:

	2009 RMB'000	2008 RMB'000
Nil to RMB500,000	2	1
RMB500,001 to RMB1,000,000	–	1
	2	2

During the year, no remuneration was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX

The Company is incorporated in Singapore and is subject to income tax rate of 17% (2008: 18%) for the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

The Company's subsidiary in Mainland China is subject to income tax rate of 25% (2008: 25%). Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", the subsidiary is entitled to full exemption from income tax for the first two profitable years and a 50% reduction in income tax for the following three years. The subsidiary had elected the financial year ended 31 December 2007 as the first profitable year for the purpose of determining the tax holiday period. Accordingly, the subsidiary was exempted from income tax during the years ended 31 December 2007 and 2008. For the year ended 31 December 2009, the subsidiary was in its third profitable year and hence became subject to a concessionary tax rate of 12.5%.

The major components of income tax expense for the financial years ended 31 December 2009 and 2008 are:

Group

	2009 RMB'000	2008 RMB'000 (Restated)
Current – Singapore		
Charge for the year	102	–
Overprovision in prior years	–	(523)
Current – PRC		
Charge for the year	23,968	–
Deferred (note 29)	8,215	18,617
Total tax charge for the year	32,285	18,094

Notes to Financial Statements

11. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiary are domiciled to the tax charge for the year at the effective tax rate is as follows:

	2009 RMB'000	2008 RMB'000 (Restated)
Profit before tax	151,509	349,768
Tax at statutory tax rates	40,450	93,083
Expenses not deductible for tax	7,153	4,518
Effect of withholding tax at 5% on the distributable profits of the PRC subsidiary	8,215	18,617
Effect of tax holiday	(23,533)	(97,601)
Adjustments in respect of current tax of previous periods	–	(523)
Tax charge for the year at the effective tax rate	32,285	18,094

12. NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB54,591,000 (2008: RMB51,219,000) which has been dealt with in the financial statements of the Company.

13. DIVIDEND

	2009 RMB'000	2008 RMB'000
Proposed final dividend – SGD0.6 cent (2008: SGD1.6 cents) per ordinary share	29,222	75,927

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

14. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

Earnings per share is calculated by dividing the Group's net profit attributable to shareholders for the year by the weighted average number of 1,000,000,000 (2008: 1,000,000,000) ordinary shares outstanding during the year.

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2008 and 2009 and therefore the diluted earnings per share amounts for those years were the same as the basic earnings per share amounts.

Notes to Financial Statements

15. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2009

	Buildings RMB'000	Other fixtures and structures RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction- in- progress RMB'000	Total RMB'000
Cost:							
At 1 January 2009	87,139	98,944	886,479	33,010	8,178	750,891	1,864,641
Additions	–	52	15,149	7,857	3,086	785,481	811,625
Transfers	123,180	138,593	1,035,830	14,544	–	(1,312,147)	–
Disposals	(3)	(36)	(1,279)	(163)	(210)	–	(1,691)
At 31 December 2009	210,316	237,553	1,936,179	55,248	11,054	224,225	2,674,575
Accumulated depreciation:							
At 1 January 2009	5,054	15,143	216,743	9,869	1,821	–	248,630
Depreciation charged for the year	4,884	3,478	106,503	8,001	1,670	–	124,536
Disposals	–	(8)	(421)	(98)	(77)	–	(604)
At 31 December 2009	9,938	18,613	322,825	17,772	3,414	–	372,562
Net carrying amount: At 31 December 2009	200,378	218,940	1,613,354	37,476	7,640	224,225	2,302,013

31 December 2008

	Buildings RMB'000	Other fixtures and structures RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction- in- progress RMB'000	Total RMB'000
Cost:							
At 1 January 2008	84,010	94,997	863,752	28,952	6,000	71,603	1,149,314
Additions	2,776	701	26,097	4,064	2,497	687,171	723,306
Transfers	574	3,570	3,739	–	–	(7,883)	–
Disposals/write-off	(221)	(324)	(7,109)	(6)	(319)	–	(7,979)
At 31 December 2008	87,139	98,944	886,479	33,010	8,178	750,891	1,864,641
Accumulated depreciation:							
At 1 January 2008	553	7,503	159,515	6,777	700	–	175,048
Depreciation charged for the year	4,514	7,918	61,672	3,098	1,263	–	78,465
Disposals/write-off	(13)	(278)	(4,444)	(6)	(142)	–	(4,883)
At 31 December 2008	5,054	15,143	216,743	9,869	1,821	–	248,630
Net carrying amount: At 31 December 2008	82,085	83,801	669,736	23,141	6,357	750,891	1,616,011

Notes to Financial Statements

16. PREPAID LAND LEASE PAYMENTS

Group

	Note	2009 RMB'000	2008 RMB'000
Carrying amount at 1 January		74,197	48,474
Additions		–	27,111
Amortised during the year		(1,436)	(1,388)
Carrying amount at end of the year		72,761	74,197
Current portion included in prepayments	20	(1,569)	(1,569)
Non-current portion		71,192	72,628

The Group's leasehold land is held under medium term leases and situated in Mainland China where the Group's manufacturing and storage facilities reside.

17. INTEREST IN A SUBSIDIARY

Company

	2009 RMB'000	2008 RMB'000
Unlisted shares, at cost	800,000	800,000

As at 31 December 2008, the amount due from a subsidiary was unsecured, interest-free and repayable in seven quarterly instalments from 31 March 2010 or at an earlier date as determined by the Company.

As at 31 December 2009, the amount due from a subsidiary was unsecured, interest-free and had no fixed terms of repayment.

Particulars of the subsidiary are as follows:

Name	Place of registration and operations	Nominal value of registered capital	Percentage of equity interest directly attributable to the Company	Principal activities
Henan Xinlianxin Fertiliser Co., Ltd.	PRC/ Mainland China	RMB800,000,000	100%	Manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution

The subsidiary is registered as wholly-foreign-owned enterprise under the PRC laws.

The statutory audited financial statements of the subsidiary for the year ended 31 December 2009 were not audited by Ernst & Young Singapore or other member firm of the Ernst & Young global network.

Notes to Financial Statements

18. INVENTORIES

Group

	2009 RMB'000	2008 RMB'000
Raw materials	137,797	178,379
Parts and spares	11,528	13,112
Work-in-progress	2,668	2,123
Finished goods	69,918	41,351
	221,911	234,965

19. TRADE AND BILLS RECEIVABLES

Group

	2009 RMB'000	2008 RMB'000
Trade receivables	890	7,989
Impairment	(322)	(322)
	568	7,667
Bills receivable	40,708	18,580

Trade receivables are non-interest-bearing and are normally settled on terms of 30 to 90 days. 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.

The Group's trading terms with its customers are mainly payment in advance or on credit for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group's trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2009 RMB'000	2008 RMB'000
Within 1 month	513	6,641
1 to 3 months	54	1,014
3 to 6 months	-	9
6 to 12 months	1	3
	568	7,667

Notes to Financial Statements

19. TRADE AND BILLS RECEIVABLES (CONTINUED)

The movements in provision for impairment of trade receivables were as follows:

	2009 RMB'000	2008 RMB'000
At beginning of year	322	409
Impairment losses written back (note 7)	–	(83)
Amount written off as uncollectible	–	(4)
At end of year	322	322

The individually impaired trade receivables relate to customers that were in financial difficulties or in default in repayments and were not expected to be recovered. The Group does not hold any collateral or other enhancements over these balances.

The aged analysis of the Group's trade receivables that are not considered to be impaired is as follows:

	2009 RMB'000	2008 RMB'000
Neither past due nor impaired	567	7,655
Less than 3 months past due	–	9
More than 3 months past due	1	3
	568	7,667

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

Notes to Financial Statements

20. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Group

	Note	2009 RMB'000	2008 RMB'000
NON-CURRENT			
Prepayments			
Prepayments for purchases of plant and equipment		6,515	277,882
CURRENT			
Prepayments			
Advanced deposits to suppliers		56,907	25,268
Current portion of prepaid land lease payments	16	1,569	1,569
Other prepayments		–	1,319
		58,476	28,156
Deposits and other receivables			
Deposits		–	17
Advances to employees		–	1,560
Interest receivable		–	1,492
VAT receivable		31,609	–
Others		5,262	3,025
		36,871	6,094
Total prepayments, deposits and other receivables		95,347	34,250

Company

	2009 RMB'000	2008 RMB'000
Deposits and other receivables		
Deposits	–	17
Interest receivable	–	1,492
	–	1,509

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Notes to Financial Statements

21. DERIVATIVE FINANCIAL ASSETS

The Company and the Group entered into derivative financial instruments to hedge its interest rate risk exposures.

During the year ended 31 December 2008, the Group entered into two non-deliverable interest rate swaps which paid a fixed interest of approximately 2.55% per annum and received a variable interest equal to USD LIBOR+2.25% per annum on the notional amount on a quarterly basis. The swaps were being used to hedge for cash flow interest rate risks arising from its floating rate USD bank loan amounting to USD45,000,000 (note 28(c)). The floating rate bank loan and the interest rate swaps had the same critical terms.

During the year ended 31 December 2009, the Group repaid the aforementioned bank loan and these two non-deliverable interest rate swaps entered into in last year no longer meet the criteria for hedge accounting. Hence, the contracts were terminated during the year and the changes in fair value of non-hedging interest rate swaps amounting to RMB8,760,000 (note 7) were debited to the consolidated statement of comprehensive income during the year ended 31 December 2009.

The fair value and notional amount of the interest rate swaps of the Group were as follows:

Group and Company

	2009	2008
	RMB'000	RMB'000
Fair value of net interest rate swaps	–	19,807
Notional amount of net interest rate swaps	–	263,816*

* Equivalent to USD38,600,000

As at 31 December 2008, the above fair value changes on derivatives that were designated as hedging instruments in cash flow hedges to the extent that the hedge was effective were recognised directly in equity as a hedging reserve.

In addition, as at December 2008, the Group had entered into various non-deliverable interest rate swaps to manage its interest rate exposures which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging swaps amounting to RMB1,763,000 were credited to the consolidated statement of comprehensive income during the year ended 31 December 2008 (note 6).

Notes to Financial Statements

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Time deposits	21,173	10,685	–	10,685
Less: Pledged time deposits for bills payable (note 25)	(21,173)	–	–	–
	–	10,685	–	10,685
Cash at banks and on hand	139,796	189,429	2,835	12,352
Cash and cash equivalents	139,796	200,114	2,835	23,037

At 31 December 2009, the cash and bank balances of the Group denominated in RMB amounted to RMB158,133,000 (2008: RMB36,006,000). 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.

23. DUE TO RELATED COMPANIES

The amounts due to related companies are unsecured, interest-free and repayable on demand, except for the entrusted loan of RMB90,000,000 (note 28) as at 31 December 2008 due to Henan Xinlianxin Chemicals Group Co., Ltd. ("Henan Chemicals") which was interest-bearing at 6.804% per annum and was repaid during the year.

Related companies comprise Henan Chemicals and its subsidiaries. The Company's shareholders are common with the shareholders of Henan Chemicals and the Company's executive directors and executive officers have certain equity interests in Henan Chemicals.

24. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	Group	
	2009	2008
	RMB'000	RMB'000
Within 1 month	13,197	37,960
1 to 3 months	26,198	3,669
3 to 6 months	5,529	2,149
6 to 12 months	607	910
Over 12 months	1,904	3,072
	47,435	47,760

The trade payables are non-interest-bearing and are normally settled on terms of 30 to 90 days.

Notes to Financial Statements

25. BILLS PAYABLE

The Group's bills payable have an average maturity period of 90 to 180 days and are interest-free. As at 31 December 2009, bills payable were secured by time deposits of RMB21,173,000 (2008: Nil) (note 22).

26. ACCRUALS AND OTHER PAYABLES

Group

	2009 RMB'000	2008 RMB'000
NON-CURRENT		
Accruals		
Accruals for contracting charges and purchases of property, plant and equipment	65,035	25,600
CURRENT		
Accruals		
Accrued expenses	28,321	32,017
Accruals for contracting charges and purchases of property, plant and equipment	79,282	73,092
	107,603	105,109
Other payables		
Advance payments from customers	182,418	144,533
VAT and other operating tax payables	132	1,707
Tender deposits	3,416	4,427
Staff deposits	229	375
Others	5,702	3,260
	191,897	154,302
	299,500	259,411

Other payables are non-interest-bearing and have an average term of three months.

27. DEFERRED GRANTS

Group

	2009 RMB'000	2008 RMB'000
Cost:		
At beginning of the year	9,740	8,240
Received during the year	800	1,500
At end of year	10,540	9,740
Accumulated amortisation:		
Amortisation during the year	1,545	-
Net carrying amount:		
Current	8,995	9,740

As at 31 December 2008 and 2009, deferred grants related to government grants given to the Group for installation and building of machinery with the aim to implement energy-saving production methods and reduce production cost. As at 31 December 2008 and 2009, certain deferred grants are still subject to final approval by the government upon the completion of the project.

Notes to Financial Statements

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2009			2008		
	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000
CURRENT						
Bank loans						
– unsecured	4.86% to 5.4%	2010	110,000	6.14% to 7.47%	2009	145,000
NON-CURRENT						
Bank loans						
– secured (a)	5.4%	2012	120,000	–	–	–
– unsecured	5.4%	2011 to 2012	705,000	Floating rate at not more than 30% above the PBOC prime lending rate	2010 to 2011	115,000
Syndicated bank loan						
– unsecured (b, c)	–	–	–	USD LIBOR + 2.25%	2010 to 2011	307,557
Loan from the government						
– unsecured (d)	Floating rate at 0.3% above market prime lending rate	–	10,152	Floating rate at 0.3% above market prime lending rate	–	10,417
Entrusted loan due to a related party						
– unsecured (e)	–	–	–	6.804%	2011	90,000
			835,152			522,974
			945,152			667,974

Company

	2009			2008		
	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000
NON-CURRENT						
Syndicated bank loan						
– unsecured (b, c)	–	–	–	USD LIBOR +2.25%	2010 to 2011	307,557

Notes to Financial Statements

28. INTEREST-BEARING BANK AND OTHER BORROWINGS (CONTINUED)

	Group		Company	
	2009	2008	2009	2008
	RMB'000	RMB'000	RMB'000	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	110,000	145,000	–	–
In the second year	585,000	123,023	–	123,023
In the third to fifth years, inclusive	240,000	299,534	–	184,534
	935,000	567,557	–	307,557
Other borrowings repayable:				
In the second year	10,152	10,417	–	–
In the third to fifth years, inclusive	–	90,000	–	–
	10,152	100,417	–	–
	945,152	667,974	–	307,557

Notes:

- (a) Certain bank loans of the Group and of the Company were guaranteed by independent third parties.
- (b) Except for the syndicated bank loan with interest at LIBOR+2.25% which was denominated in United States dollars, all borrowings are in RMB. This syndicated bank loan had a principal sum of USD45,000,000 (equivalent to RMB307,557,000) and its foreign currency and interest rate risk exposures had been hedged by two interest rate swaps entered into by the Group and the Company (note 21).
- (c) Pursuant to a loan agreement between the Company and a bank relating to the syndicated loan amounted to USD45,000,000 (equivalent to RMB307,557,000) and with original maturity term in 2011, a termination event would arise if the Group fails to meet the financial covenants as stipulated in the loan agreement. During the year ended 31 December 2009, two of the covenants were breached and according to the loan agreement, the loan had become immediately repayable, and the entire loan was repaid in September 2009.
- (d) The loan from government bears interest at a floating rate of 0.3% above the market prime lending rate and is not due to be repaid within the next 12 months.
- (e) The loan was early repaid during the year ended 31 December 2009.

The fair values of the Group's and the Company's interest-bearing bank and other borrowings approximated their carrying values.

Notes to Financial Statements

29. DEFERRED TAX LIABILITIES

Group

	Withholding tax RMB'000 (Restated)
At 1 January 2008	–
Deferred tax charged to the consolidated statement of comprehensive income during the year (note 11)	18,617
At 31 December 2008 and at 1 January 2009	18,617
Deferred tax charged to the consolidated statement of comprehensive income during the year (note 11)	8,215
At 31 December 2009	26,832

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by the subsidiary established in Mainland China in respect of earnings generated from 1 January 2008.

30. SHARE CAPITAL

Shares

	Number of ordinary shares		Amount	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000 (Restated)
Issued and fully paid	1,000,000	1,000,000	836,671*	836,671*

* Equivalent to SGD165,677,000.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions. The ordinary shares have no par value.

31. RESERVES

The amounts of the Group's and Company's reserves and the movements therein for the years ended 31 December 2008 and 2009 are presented in the statements of changes in equity.

In accordance with the Wholly Foreign Owned Enterprise Law applicable to the subsidiary in the PRC, the subsidiary is required to make appropriations to the Statutory Reserve Fund (the "SRF"). At least 10% of the after tax profits as determined in accordance with the applicable PRC accounting standards and regulations must be allocated to the SRF until the cumulative total of the SRF reaches 50% of the subsidiary's registered capital. Subject to approval from the relevant PRC authorities, the SRF may be used to offset any accumulated losses or increase the registered capital of the subsidiary. The SRF is not available for dividend distribution to shareholders.

Notes to Financial Statements

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(i) Purchases of property, plant and equipment

	2009	2008
	RMB'000	RMB'000
Additions to property, plant and equipment (note 15)	811,625	723,306
Less: Prepayments made in the prior year (note 20)	(277,882)	(57,629)
Less: Payable to creditors	(144,317)	(98,692)
Less: Interest capitalised (note 8)	(5,000)	–
	384,426	566,985
Add: Prepayments made in the current year (note 20)	6,515	277,882
Add: Payments for the prior year purchases	98,692	35,131
	489,633	879,998

(ii) Interest capitalisation

During the year ended 31 December 2009, the Group capitalised interest expenses of RMB5,000,000 in property, plant and equipment (note 8).

33. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

34. OPERATING LEASE ARRANGEMENTS

The Group had operating lease agreements for buildings in Mainland China. Certain of these leases have options for renewal. Future minimum rentals payable under non-cancellable operating leases at the end of the reporting period are as follows:

	2009	2008
	RMB'000	RMB'000
Within one year	2,277	1,507
In the second to fifth years, inclusive	9,001	5,550
After five years	58,201	39,248
	69,479	46,305

The Company had no operating lease arrangements as at 31 December 2008 and 2009.

Notes to Financial Statements

35. COMMITMENTS

In addition to the operating lease commitments detailed in note 34 above, the Group had the following capital and other commitments at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
Capital commitments		
Contracted, but not provided for:		
Buildings	137,615	28,835
Plant and machinery	170,763	300,782
	308,378	329,617
Authorised, but not contracted for:		
Buildings	–	13,341
Plant and machinery	16,052	109,093
	16,052	122,434
	324,430	452,051
Other commitments		
Purchases of raw materials	2,751	262,572

The Company had no material commitment as at 31 December 2008 and 2009.

36. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Notes	2009 RMB'000	2008 RMB'000
Continuing transactions			
Sales of electricity, water and steam to:	(i)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		879	869
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		984	1,149
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		3	2
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		132	181
– Xinxiang Yuyuan Chemical Co., Ltd. #		553	475
– Xinxiang Xinlianxin Hotel Co., Ltd. #		49	50
Service fee income for provision of calibration and testing services to:	(ii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		33	28
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		1	2
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		9	8
– Xinxiang Yuyuan Chemical Co., Ltd. #		34	44
Purchases of raw materials and consumables from:	(iii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		2	30
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		535	387
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		5,934	14,648
– Xinxiang Yuyuan Chemical Co., Ltd. #		3	–
Service fee expenses for provision of lifting services from:	(iv)		
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.		1,799	1,020

Notes to Financial Statements

36. RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (Continued)

	Notes	2009 RMB'000	2008 RMB'000
Discontinued transactions			
Operating lease expenses to:	(v)		
– Henan Chemicals		480	492
Management fee income from:	(vi)		
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		1	–
– Xinxiang Yuyuan Chemical Co., Ltd. #		11	–
Service fee expenses to:	(vii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		5	–
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		574	–
– Xinxiang Xinlianxin Hotel Co., Ltd. #		2,104	1,393
Interest expense to:	(viii)		
– Henan Chemicals		2,735	5,835
Compensation expense to:	(ix)		
– Xinxiang Yuyuan Chemical Co., Ltd. #		2,881	–

These companies are subsidiaries of Henan Chemicals, which has common shareholders with the Company. The Company's executive directors and executive officers have certain equity interests in Henan Chemicals.

(a) Notes:

- (i) The sale of electricity was made according to the unit cost of electricity announced by Henan Province Development and Reform Committee (河南省發展和改革委員會). The sales of water and steam were made according to a mark-up of 10% above cost.
- (ii) The service fee income was charged according to mutually agreed terms with reference to the actual costs incurred.
- (iii) The purchases of raw materials and consumables were charged based on the published price and conditions offered to third parties by the related parties.
- (iv) The service fee expenses for the provision of lifting services were charged based on mutually agreed terms with reference to the actual costs incurred.
- (v) The operating lease expenses for the year were charged at a fixed monthly amount of RMB40,000 (2008: RMB40,000).

Notes to Financial Statements

36. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year: (Continued)

(a) Notes: (Continued)

- (vi) The management fee income was received according to mutually agreed terms with reference to the actual costs incurred.
- (vii) The services fee expenses were charged based on mutually agreed terms with reference to the actual costs incurred.
- (viii) The interest expense was charged based on a fixed interest rate of 6.804% per annum on the balance due to the related company.
- (ix) The compensation expense in relation to the dismantling of the factory of Xinxiang Yuyuan Chemical Co., Ltd. for the expansion of the Group's factory premises was charged based on the mutually agreed fee.

The related party transactions in respect of items (i) to (ix) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

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

	2009	2008
	RMB'000	RMB'000
Directors' fee	700	700
Salaries and bonuses	4,061	9,288
Contribution to defined contribution plans	114	70
	4,875	10,058
Comprise amounts paid to:		
– Directors of the Company	3,040	8,447
– Other key management personnel	1,835	1,611
	4,875	10,058

Further details of the directors' remuneration are included in note 9 to these financial statements.

Notes to Financial Statements

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:

Group

Financial assets

	Notes	Loans and receivables	
		2009 RMB'000	2008 RMB'000
Trade receivables	19	568	7,667
Bills receivable	19	40,708	18,580
Deposits and other receivables	20	36,871	6,094
Pledged deposits	22	21,173	–
Cash and cash equivalents	22	139,796	200,114
		239,116	232,455

	Note	Financial assets at fair value through profit or loss	
		2009 RMB'000	2008 RMB'000
Derivative financial assets	21	–	19,807

Financial liabilities

	Notes	Financial liabilities at amortised cost	
		2009 RMB'000	2008 RMB'000
Due to related companies	23	1,517	1,676
Trade payables	24	47,435	47,760
Bills payable	25	41,346	–
Other payables	26	191,897	154,302
Deferred grants	27	8,995	9,740
Interest-bearing bank and other borrowings	28	945,152	667,974
		1,236,342	881,452

Notes to Financial Statements

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

The carrying amounts of each of the categories of financial instruments as at the reporting date were as follows:
(Continued)

Company

Financial assets

	Notes	Loans and receivables	
		2009 RMB'000	2008 RMB'000
Due from a subsidiary		8,851	309,420
Deposits and other receivables	20	–	1,509
Cash and cash equivalents	22	2,835	23,037
		11,686	333,966

	Note	Financial assets at fair value through profit or loss	
		2009 RMB'000	2008 RMB'000
Derivative financial assets	21	–	19,807

Financial liabilities

	Note	Financial liabilities at amortised cost	
		2009 RMB'000	2008 RMB'000
Interest-bearing bank and other borrowings	28	–	307,557

Notes to Financial Statements

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the chief financial officer and finance manager. The Group does not apply hedge accounting apart from the hedging arrangements disclosed in note 21.

The following sections provide details regarding the Group's exposure to the above-mentioned financial risks and the objectives, policies and processes for the management of these risks.

(a) Credit risk

Credit risk is the risk of loss that may arise on outstanding financial instruments should a counterparty default on its obligations. The Group's exposure to credit risk arises primarily from trade and other receivables. For other financial assets such as cash and cash equivalents, bills receivable and deposits and other receivables, the Group minimises credit risk by dealing exclusively with high credit rating counterparties.

The Group's objective is to seek continual revenue growth while minimising losses incurred due to increased credit risk exposure. The Group trades only with recognised and creditworthy third parties. It is the Group's policy that the majority of customers who wish to trade are required to pay cash on delivery or in advance before collecting any goods. A minority of customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

Exposure to credit risk

At the reporting date, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statements of financial position, including derivatives with positive fair values.

Credit risk concentration profile

The Group determines concentration of credit risk by monitoring on an on-going basis the aged analysis of its trade receivables by each product category. The credit risk concentration profile of the Group's trade receivables at the end of the reporting period is as follows:

	2009 RMB'000	% of total	2008 RMB'000	% of total
Urea	513	90	6,626	86
Compound fertiliser	55	10	1,036	13
Others	–	–	5	1
Total	568	100	7,667	100

At 31 December 2008 and 2009, approximately 53% and 67% of the Group's trade receivables were due from its top 10 customers located in Mainland China, respectively.

Notes to Financial Statements

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting financial obligations due to shortage of funds. The Group's exposure to liquidity risk arises primarily from mismatches of the maturities of financial assets and liabilities. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of stand-by credit facilities.

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the reporting date based on contractual undiscounted payments.

	1 year or less RMB'000	1 to 3 years RMB'000	3 to 5 years RMB'000	% of Total RMB'000
Group				
31 December 2009				
Trade payables	47,435	–	–	47,435
Bills payable	41,346	–	–	41,346
Other payables	191,897	–	–	191,897
Due to related companies	1,517	–	–	1,517
Interest-bearing bank and other borrowings	111,938	904,931	11,440	1,028,309
31 December 2008				
Trade payables	47,760	–	–	47,760
Other payables	154,302	–	–	154,302
Due to related companies	1,676	–	–	1,676
Interest-bearing bank and other borrowings	152,410	562,753	11,989	727,152
Company				
31 December 2008				
Interest-bearing bank and other borrowings	–	331,595	–	331,595

The Company had no financial liabilities as at 31 December 2009.

Notes to Financial Statements

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings.

Sensitivity analysis for interest rate risk

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for fixed rate financial assets and liabilities at fair value through profit or loss. Therefore, a change in interest rates at the reporting date would not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

For variable rate financial assets and liabilities, the Group has determined that the carrying amounts of cash and short-term deposits based on their notional amounts, which reasonably approximate their fair values because these are mostly short-term in nature or are repriced frequently. For interest-bearing loans and borrowings, a change in interest rate at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Increase in basis points	2009 RMB'000	2008 RMB'000
Interest expense			
RMB	+10	(713)	(125)
USD	+50	-	(219)
Interest income			
RMB	+10	138	36
SGD	+10	1	22
USD	+50	7	710

Notes to Financial Statements

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(d) Foreign currency risk

The Group holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the reporting date, such foreign currency balances (mainly in SGD and USD) are as follows:

	2009 RMB'000	2008 RMB'000
SGD	1,174	22,077
USD	1,614	142,031
	2,788	164,108

The following table demonstrates the sensitivity to a reasonably possible change in the SGD and USD exchange rates (against RMB), with all other variables held constant, on the Group's profit net of tax and equity.

	2009 RMB'000	2008 RMB'000
SGD – strengthened 5% (2008: 5%)	59	1,104
– weakened 5% (2008: 5%)	(59)	(1,104)
USD – strengthened 2% (2008: 2%)	32	(1,966)
– weakened 2% (2008: 2%)	(32)	1,966

Notes to Financial Statements

39. CAPITAL MANAGEMENT

The primary objectives of the Group's capital management are to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 2009.

As disclosed in note 31, a subsidiary of the Group is required by the Wholly Foreign Owned Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary for years ended 31 December 2008 and 2009.

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%.

	2009 RMB'000	2008 RMB'000
Due to related companies	1,517	1,676
Trade payables	47,435	47,760
Bills payable	41,346	–
Accruals and other payables	364,535	285,011
Interest-bearing bank and other borrowings	945,152	667,974
Less: Cash and cash equivalents	(139,796)	(200,114)
Less: Pledged deposits	(21,173)	–
Net debt	1,239,016	802,307
Shareholders' equity	1,474,643	1,450,906
Less: Statutory reserve fund	(94,200)	(77,770)
Less: Hedging reserve	–	(19,807)
Total capital	1,380,443	1,353,329
Capital and net debt	2,619,459	2,155,636
Gearing ratio	47.3%	37.2%

The Group includes within net debt, loans and borrowings, trade and other payables, other liabilities, less cash and cash equivalents. Capital includes equity attributable to the owners of the parent less the hedging reserve and the above-mentioned restricted statutory reserve fund.

Notes to Financial Statements

40. RECONCILIATION BETWEEN SFRSS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

For the year ended 31 December 2009, there were no material differences between the consolidated statements of comprehensive income of the Group prepared under SFRSs and IFRSs.

The differences between the consolidated statements of financial position and the consolidated statements of changes in equity of the Group as at 31 December 2009 prepared under SFRSs and IFRSs are as follows:

	Note	Issued capital RMB'000	Statutory reserve fund RMB'000	Retained profits RMB'000	Total equity RMB'000
As at 31 December 2009					
Total equity under SFRSs		836,671	94,200	543,772	1,474,643
Share issue expenses	(i)	44,453	–	(44,453)	–
Total equity under IFRSs		881,124	94,200	499,319	1,474,643

Note:

- (i) The difference is caused by the deduction from equity of share issue expenses relating to the listing of both new shares and existing shares in accordance with the Recommended Accounting Practice in Singapore while IFRSs require share issue expenses to be allocated to new shares and existing shares and charged to equity and the statement of comprehensive income, respectively.

41. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 23 March 2010.

Statistics of Shareholdings

ANALYSIS OF SHAREHOLDINGS AS AT 5 MARCH 2010

Number of Shares	–	1,000,000,000
Class of shares	–	Ordinary shares
Voting rights	–	One vote per share

DISTRIBUTION OF SHAREHOLDINGS AS AT 5 MARCH 2010

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	6	0.11	1,417	0.00
1,000 – 10,000	3,252	60.30	21,469,786	2.15
10,001 – 1,000,000	2,117	39.26	93,484,000	9.35
1,000,001 and above	18	0.33	885,044,797	88.50
Total	5,393	100.00	1,000,000,000	100.00

LIST OF 20 LARGEST SHAREHOLDERS AS AT 5 MARCH 2010

No.	Name	No. of Shares	%
1	HKSCC NOMINEES LIMITED	379,829,000	37.98
2	PIONEER TOP HOLDINGS LIMITED	343,376,000	34.34
3	BIG DAY LIMITED	49,900,000	4.99
4	AMFRASER SECURITIES PTE. LTD.	24,325,000	2.43
5	DBS NOMINEES PTE LTD	24,102,866	2.41
6	CITIBANK NOMS S'PORE PTE LTD	17,851,073	1.79
7	HSBC (SINGAPORE) NOMS PTE LTD	14,378,866	1.44
8	RAFFLES NOMINEES (PTE) LTD	6,356,600	0.64
9	OCBC SECURITIES PRIVATE LTD	4,127,000	0.41
10	UOB KAY HIAN PTE LTD	3,727,000	0.37
11	DBSN SERVICES PTE LTD	2,849,000	0.28
12	PHILLIP SECURITIES PTE LTD	2,837,000	0.28
13	UNITED OVERSEAS BANK NOMINEES	2,734,400	0.27
14	KIM ENG SECURITIES PTE. LTD.	2,516,342	0.25
15	MERRILL LYNCH (S'PORE) P L	2,295,650	0.23
16	DBS VICKERS SECS (S) PTE LTD	1,495,000	0.15
17	HONG LEONG FINANCE NOMINEES PL	1,202,000	0.12
18	CIMB-GK SECURITIES PTE. LTD.	1,142,000	0.11
19	OCBC NOMINEES SINGAPORE	971,000	0.10
20	CHIN KIM YON OR KANG LAY HOON	900,000	0.09
	Total	886,915,797	88.68

Statistics of Shareholdings

SUBSTANTIAL SHAREHOLDERS AS SHOWN IN THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 5 MARCH 2010

Name	Direct Interest		Deemed Interest	
	No. of shares	%	No. of shares	%
Pioneer Top Holdings Limited (“ Pioneer Top ”)	343,376,000*	34.34	–	–
Go Power Investments Limited (“ Go Power ”)	280,624,000**	28.06	–	–
Mr. Liu Xingxu	–	–	343,376,000*	34.34
Ms. Yan Yunhua	300,000	0.03	280,624,000**	28.06

* Pioneer Top is a company incorporated in British Virgin Islands. The Chairman and CEO, Mr. Liu Xingxu holds 42% interest in Pioneer Top, with the remaining 58% held in trust by Mr. Liu Xingxu for the beneficiaries under a trust agreement dated 26 July 2006. The beneficiaries under the trust agreement are Mr. Li Buwen, with 16% equity interest, Mr. Li Yushun, Mr. Ru Zhengtao, Mr. Wang Nairen, Mr. Zhang Qingjin, Mr. Zhu Xingye and Mr. Shang Dewei, with 7% equity interest respectively. Pursuant to the trust agreement, Mr. Liu Xingxu has the absolute discretion to exercise the voting rights held by Pioneer Top in the Company.

** Go Power is a company incorporated in British Virgin Islands. The CFO and Executive Director, Madam Yan Yunhua holds 12.74% interest in Go Power, with the remaining 87.26% held in trust by Madam Yan Yunhua for the beneficiaries under a trust agreement dated 26 July 2006 and a trust confirmation dated 16 June 2009. The beneficiaries under the trust agreement and the trust confirmation comprise a total of 1,463 current and past employees and certain past and present customers/suppliers of the Group. The shareholdings of Go Power are held through the nominee, HKSCC Nominees Limited. Pursuant to the trust agreement and the trust confirmation, Madam Yan Yunhua has the absolute discretion to exercise the voting rights held by Go Power in the Company.

PERCENTAGE OF SHAREHOLDINGS IN PUBLIC HANDS

As at 5 March 2010, approximately 37.56% of the Company’s shares are held in the hands of the public. Accordingly, the Company has complied with Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited and Rule 8.08 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Five-Year Financial Summary

A summary of the consolidated results and assets and liabilities of the Group for the last three financial years, as extracted from the published audited financial statements, and the pro forma consolidated results and assets and liabilities of the Group for the two preceding years as extracted from the Company's listing prospectus dated 11 June 2007 in relation to the Company's application of listing in the SGX-ST, which also set out the details of the basis of presentation and are restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
RESULTS					
REVENUE	2,329,607	2,084,943	1,541,422	890,175	625,508
Cost of sales	(2,014,212)	(1,603,073)	(1,125,001)	(678,607)	(474,927)
Gross profit	315,395	481,870	416,421	211,568	150,581
Other income and gains	11,661	13,664	31,761	13,495	13,599
Selling and distribution costs	(16,902)	(20,722)	(20,166)	(9,712)	(8,590)
General and administrative expenses	(110,536)	(91,290)	(76,635)	(41,487)	(34,772)
Other expenses	(11,587)	(6,963)	(64,343)	–	–
Finance costs	(36,522)	(26,791)	(18,062)	(21,447)	(20,477)
PROFIT BEFORE TAX	151,509	349,768	268,976	152,417	100,341
Income tax expense	(32,285)	(18,094)	(1,417)	(23,333)	(31,761)
PROFIT FOR THE YEAR	119,224	331,674	267,559	129,084	68,580
ASSETS AND LIABILITIES					
TOTAL ASSETS	2,910,557	2,481,904	1,832,474	579,050	730,495
TOTAL LIABILITIES	(1,435,914)	(1,030,998)	(661,581)	(512,386)	(546,198)
	1,474,643	1,450,906	1,170,893	66,664	184,297

Information for Investors

ANNUAL RESULTS ANNOUNCEMENT

23 February 2010

ANNUAL GENERAL MEETING

27 April 2010

LAST DAY OF DEALINGS IN SHARES WITH ENTITLEMENT TO FINAL DIVIDEND

11 May 2010

BOOK CLOSURE DATE

12 May 2010

DIVIDEND PAYOUT DATE

27 May 2010

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#08-00 KH KEA Building
Singapore 188721

BRANCH SHARE REGISTRAR IN HONG KONG

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28 Queen's Road East
Wanchai, Hong Kong

STOCK CODES

Hong Kong Stock Exchange: 01866
Singapore Stock Exchange: B9R.SI
Bloomberg: CXLX:SP; 1866:HK
Reuters: CXLC.SI; 1866.HK

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** For identification purpose only*