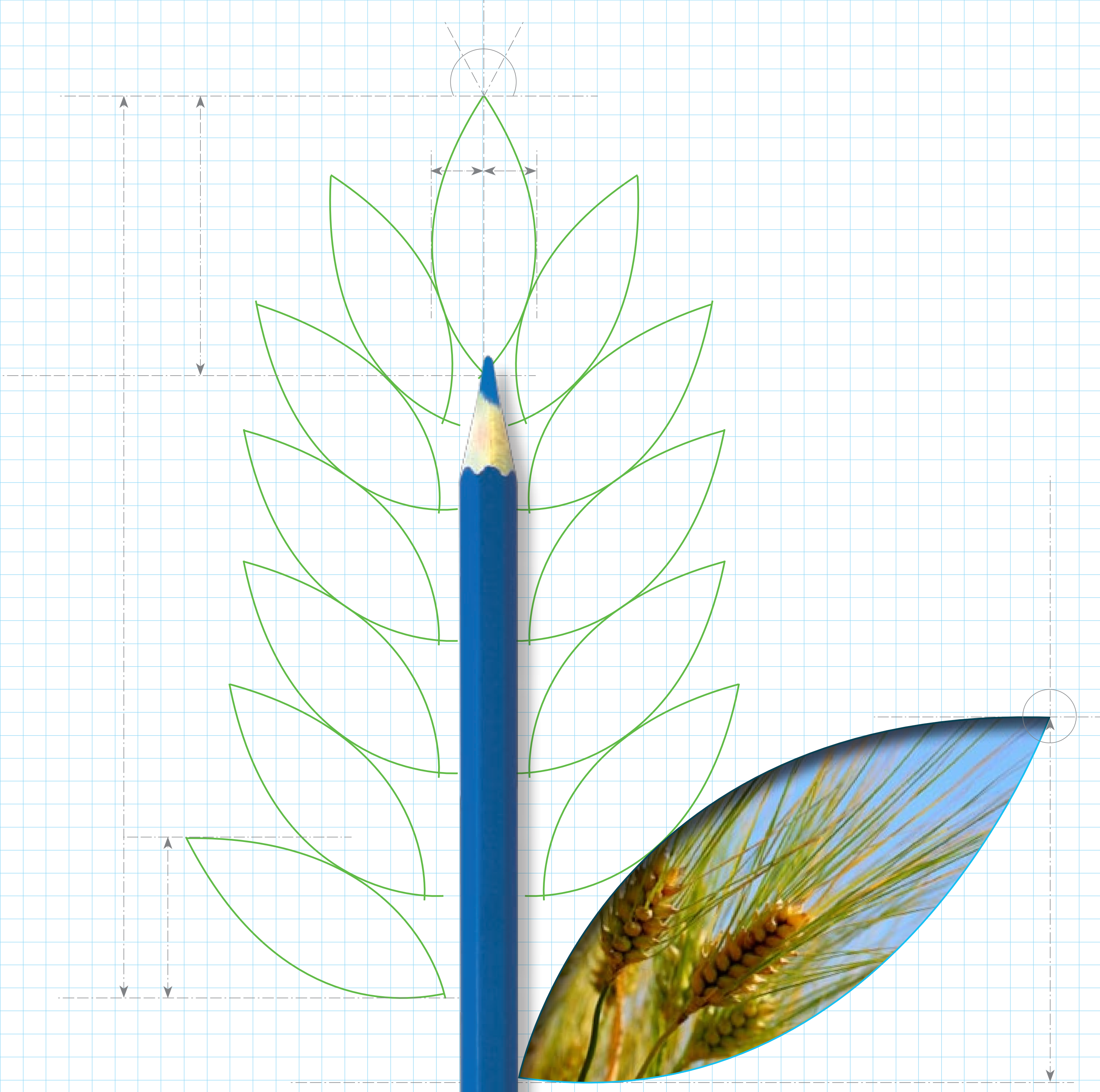


A PLAN FOR GREATER HARVEST

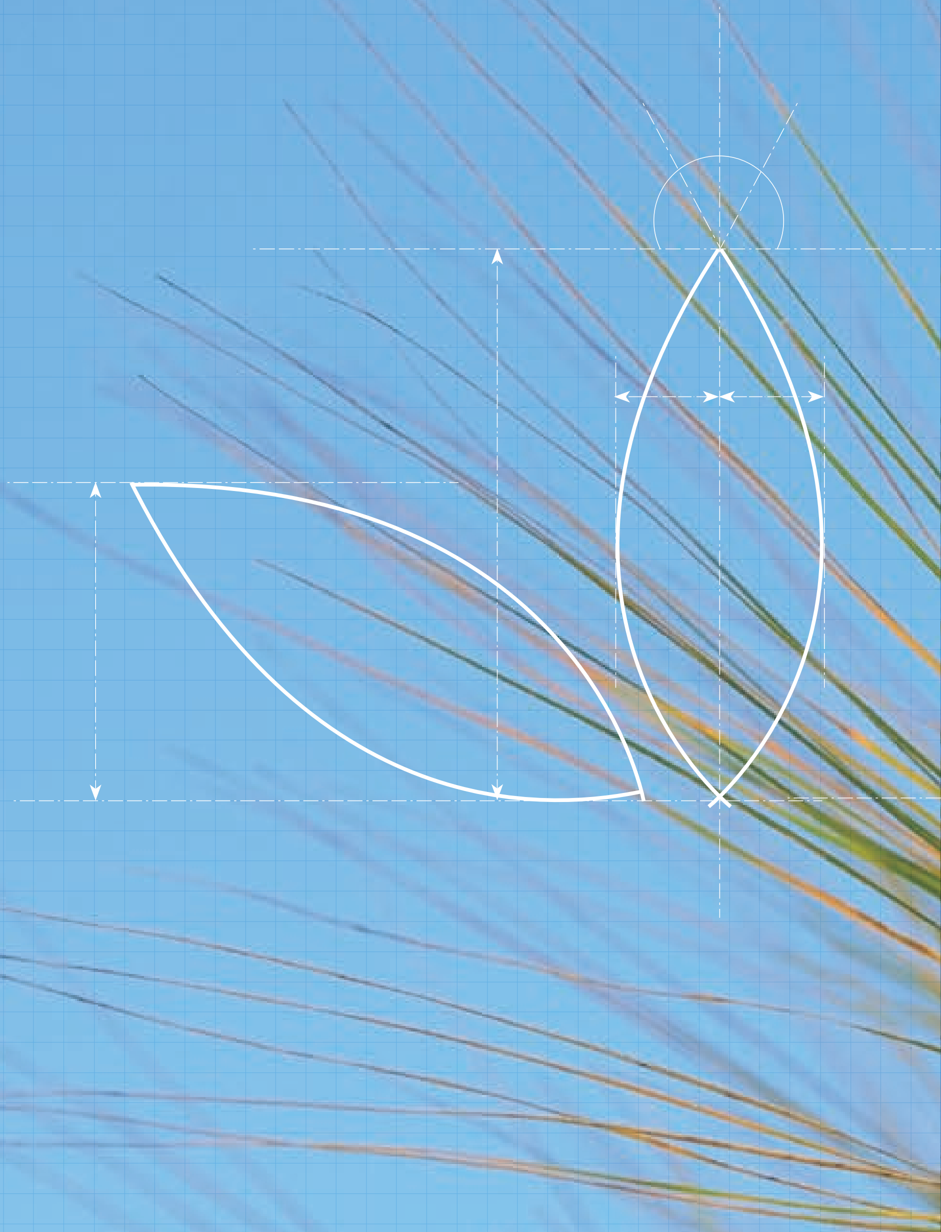
ANNUAL REPORT 2010

心连心

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



To ensure our continued strength and success, it is vital that we have a blueprint to chart out our future development and growth. This blueprint is vital as we increase our investments and double our production capacity.

As we strive to continue our promise of quality and excellence, our vision still remains focus on our core competence and business philosophy of excellent cost control and high utilisation rate.

With this blueprint, we are assured that we can maintain our competitive edge and reap the rewards of a bountiful harvest.

CONTENT

Mr. Liu Xingxu
Chairman and Chief Executive Officer

DEAR VALUED INVESTORS,

The year of 2010 was the first year after the completion of China XLX Fertiliser Ltd.'s ("**China XLX**" or the "**Company**" or "**we**", together with its subsidiary, referred as the "**Group**") primary dual listing on the main board of The Stock Exchange of Hong Kong Limited. Although the Year was particularly difficult and challenging for the urea industry when over 50% of the industry players were loss-making, we continued to remain profitable despite difficult times through our cost efficiencies and achieve satisfactory return for shareholders by maintaining a year-over-year growth of more than 20% in sales revenue and net profit with the collective effort of the Group's management and employees.

The market environment in the year was really difficult for urea producers. On one hand, the price of the coal, the major feedstock, rose significantly in 2010 beyond industry expectations, causing significant cost pressure on urea enterprises. On the other hand, urea prices increased at a lesser degree than the rise in coal price due to oversupply conditions. Furthermore, the government-mandated energy-saving policies that was in the final stage of China's 11th Five-Year Plan also caused power companies to lower electricity output, which led to historically low operating rates for the industry and increased production cost of urea. As a result, urea producers encountered immense pressure on its profitability. Fortunately, as one of the largest and most cost efficient coal-based urea producers in the People's Republic of China ("**PRC**"), China XLX was able to present a decent profit through technology upgrading and internal savings.

In September 2010, China XLX announced plans to invest approximately RMB3 billion on a fourth urea plant with annual capacity of 800K tons. Through this major strategic move, not only would China XLX become China's major fertiliser base with an annual urea production capacity exceeding two million tonnes, the new production line would also represent another technological advancement by using the cheaper coal powder to replace the expensive anthracite coal as the major feedstock, thereby laying a strong foundation for the Group by improving the cost advantage as well as competitiveness in the industry. The anticipated completion of the fourth urea plant in 2013 is expected to bring high return on investment for shareholders.

Accomplished more than

20%

year-over-year growth

in sales revenue and net profit

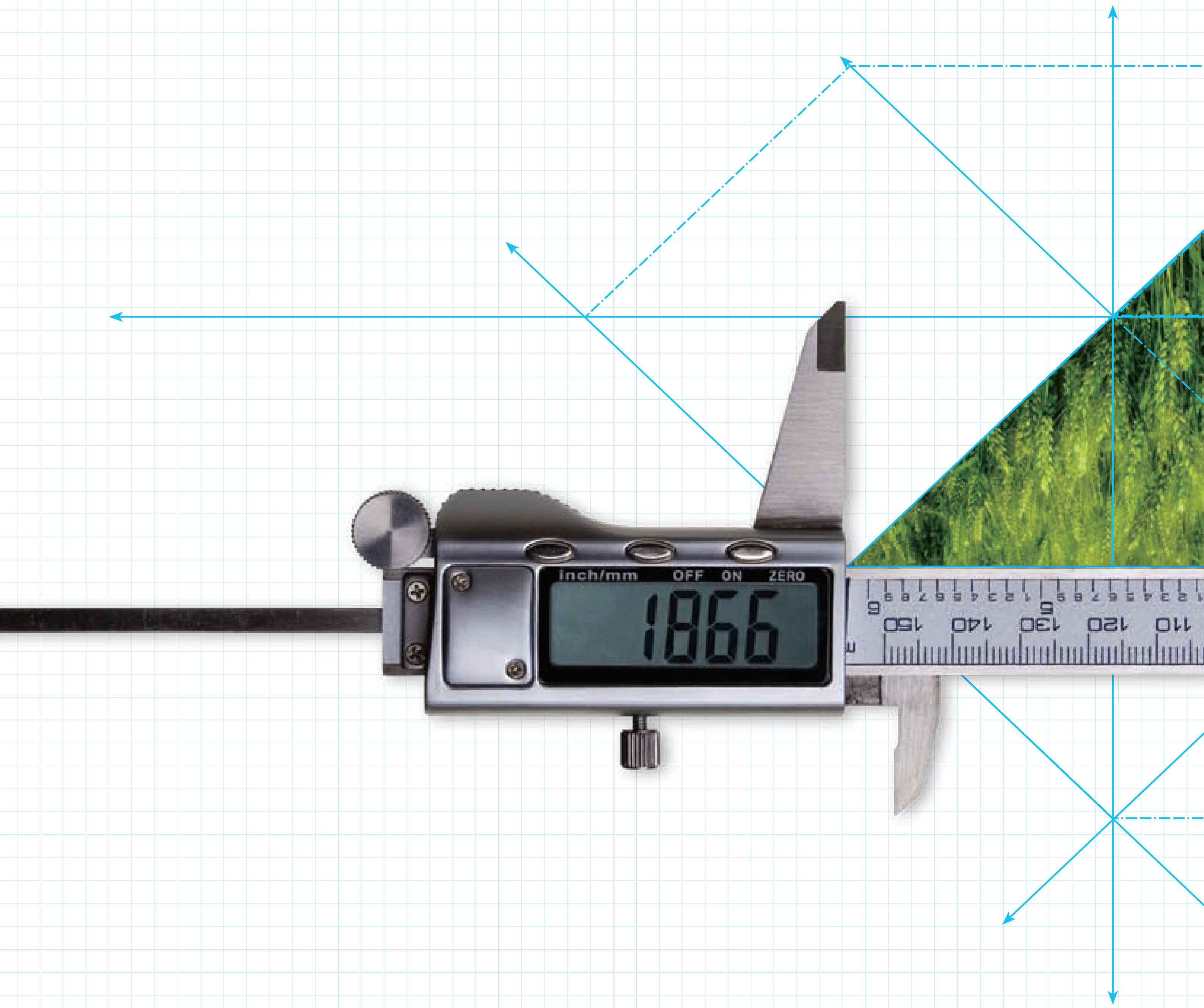
The board of directors remained diligent on corporate governance and risk control in 2010. Management attached great importance on investor relations management and continued to persist in the openness, fairness and transparency for information disclosures so that shareholders would receive timely the relevant information in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("**Listing Rules**") and the Listing Rules of the Singapore Exchange Securities Trading Limited ("**Listing Manual**"). The Group also actively organised and participated in result presentations, investor conferences, and one-on-one meetings during roadshow, etc. We also launched a new investor relations website www.chinaxlx.com.hk in the fourth quarter of 2010 to ensure the timely disclosure of comprehensive information, so as to improve the interaction between investors and the Group. These measures fully reflected the management's sincerity and determination to actively communicate with investors and to improve the transparency of China XLX. The Group also strived to create close relationships with local communities and farmers, participated in local public activities and promoted various energy-saving and power-reduction measures. For details, please visit our "Corporate Social Responsibility" section in this annual report and share the joy and pride brought by our participation in many community activities and environmental protection projects.

1.25 Million tons of annual urea production capacity, which is expected to reach 2 Million tons in 2013

As one of the leading coal-based urea producers in China, we enjoy various competitive advantages in terms of production capacity, cost efficiency, strategic location and access to abundant water resources. At the same time, the Group has been investing in technology improvements and upgrading equipment and techniques. Without the support and trust from shareholders, the commitment of the board, the management team and all employees, China XLX would not have been able to maintain its leading position in the industry amidst the current strong pressures in the urea market.

Looking ahead, we believe that with the commencement of the Twelfth Five-Year Plan, the process of urbanisation will continue to accelerate. As a result, the increasing population in the urban areas in the PRC and strong demand for food would require more food supply. As an essential supporting sector for the agricultural industry – the fertiliser industry is expected to receive more government endorsement and policy support. The No. 1 Document recently issued by central government in relation to irrigation facilities investment has reflected the Chinese government's increasing support to "Agriculture, Farmers and Rural Areas". Given the increase in demand of industrial use of urea and ammonium bicarbonate, a low-concentration nitrogen fertiliser, being gradually replaced by urea, we could expect a steady growth for fertiliser in the next five years. In terms of supply, the increasing feedstock cost of coal as well as the rising entry barrier of urea industry (such like the minimum production capacity requirement, energy consumption benchmarks, limitation on feedstock selections, etc.) will help accelerate the urea industry consolidation and phase out the weak players. The ultimate goal of China XLX is to become the most profitable coal-based urea producer in the PRC and the industry leader. We firmly believe that by our large production capacity, lower cost and strong competitiveness in the market, the Group will ultimately come out as a winner during the industry consolidation and achieve greater market share and higher return on investment, thereby creating a better tomorrow.

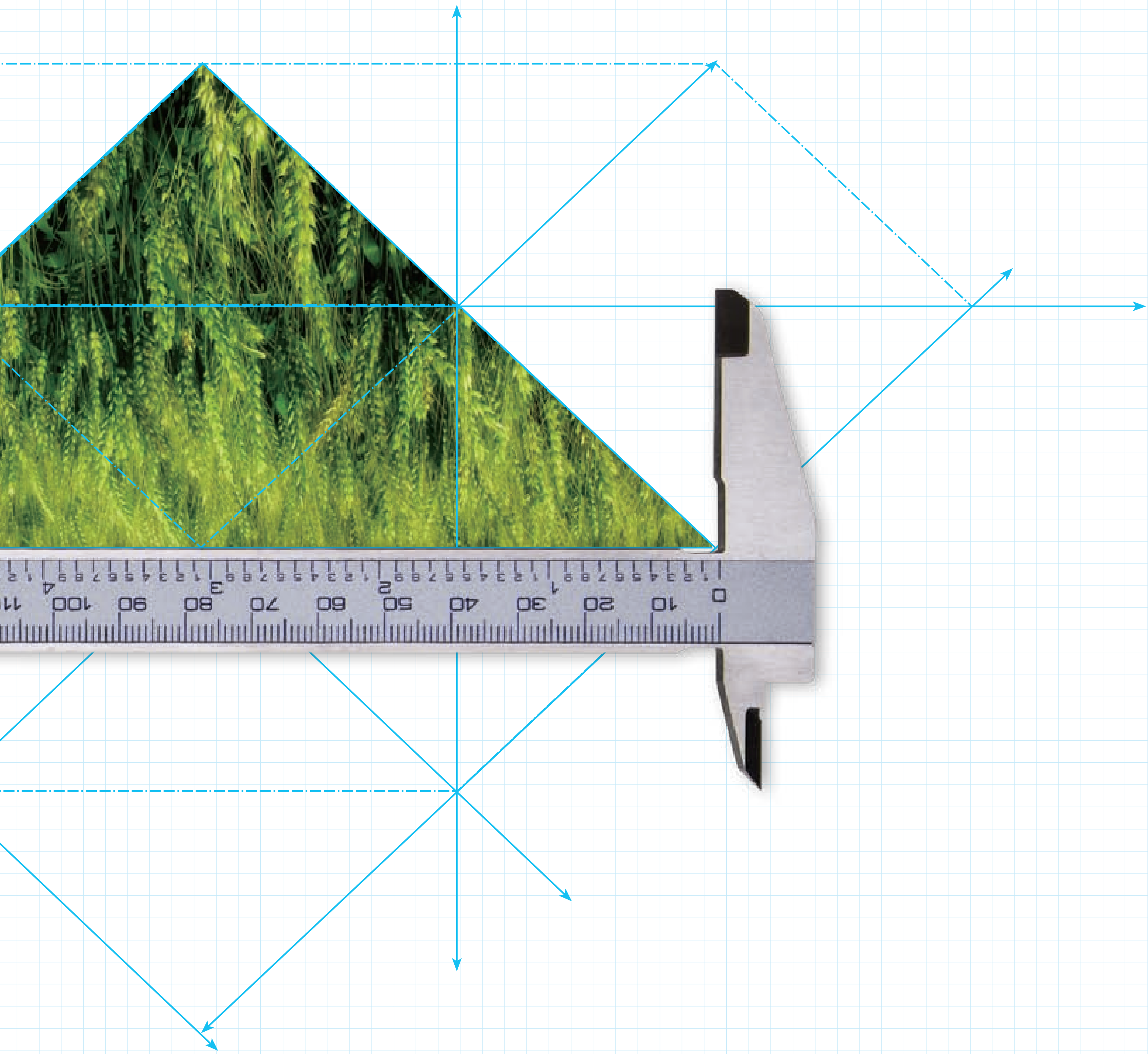
Liu Xingxu
Chairman of the Board
9 March 2011



VISION x FOUNDATION =

POWERFUL GROWTH

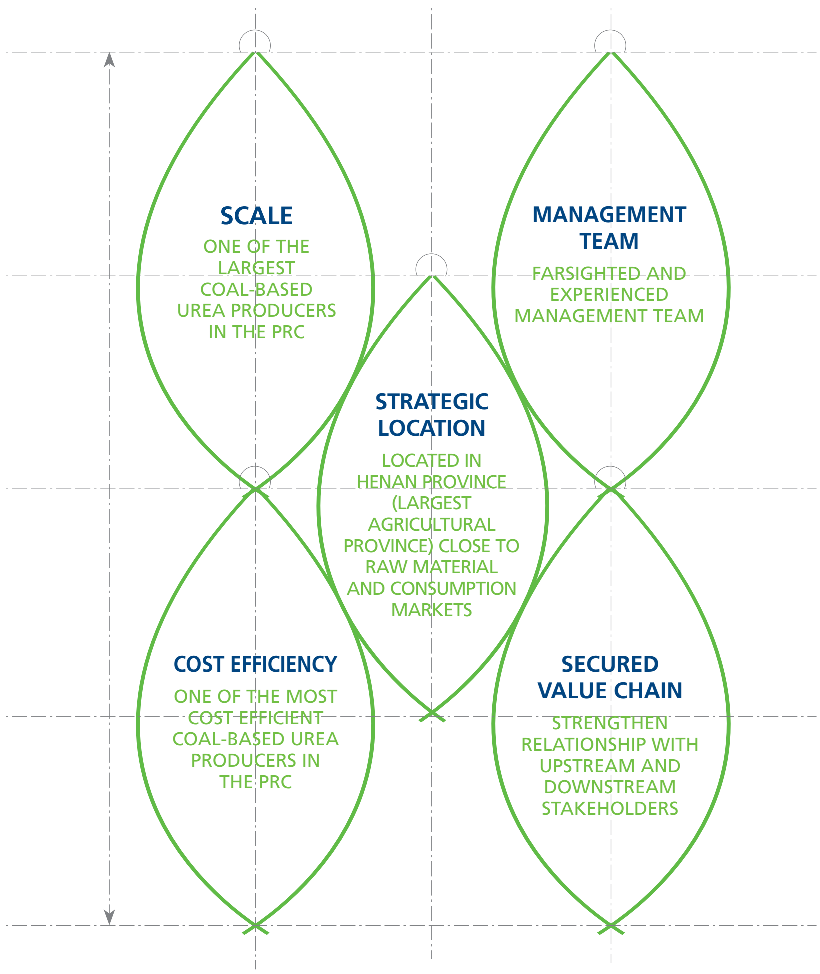
In the last five years, the Group had achieved 26% compound annual growth rate in term of sales revenue and become one of the largest coal-based urea producers in the PRC.



COMPANY PROFILE

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 65% of the total revenue of the Group in 2010. 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".

OUR KEY COMPETITIVE ADVANTAGES:



CORPORATE INFORMATION

BOARD

Executive Directors
LIU Xingxu *(Chairman & CEO)*
YAN Yunhua *(Chief Financial Officer)*
LI Buwen

Independent Non-executive Directors
ONG Kian Guan *(Lead INED)*
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

Ms. YAN Yunhua
Ms. Lee Wai Fun Betty
(appointed with effect from 10 March 2011)

JOINT COMPANY SECRETARIES

Cheah Soon Ann Jeremy
Foo Soon Soo
Lee Wai Fun Betty
(appointed with effect from 10 March 2011)

COMPLIANCE ADVISOR

First Shanghai Capital Limited
19/F, Wing On House
71 Des Voeux Road Central, Hong Kong

AUDITOR

Ernst & Young LLP
One Raffles Quay
North Tower, Level 18
Singapore 048583
Partner-in-charge: Yong Kok Keong
(with effect from financial year ended 31 December 2010)

LEGAL ADVISOR TO THE GROUP

Reed Smith Richards Butler (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 High Technology Development Zone
(Xiaoji Town)
Henan Province
PRC 453731

LISTING INFORMATION

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

CORPORATE WEBSITE

http://www.chinaxlx.com.hk

FINANCIAL HIGHLIGHTS

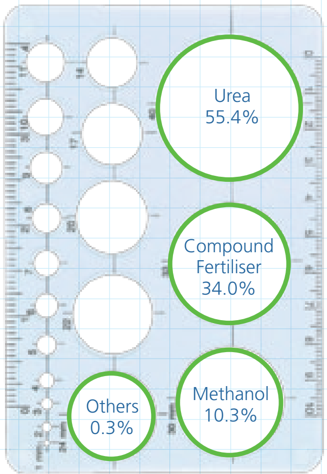
OVERALL FINANCIAL RESULTS OF 2010

(RMB million)	FY2009	**FY2010**	Change YoY (%)
Revenue	2,329	**2,851**	22
Cost of sales	(2,014)	**(2,487)**	23
Gross profit	315	**364**	15
PBT	151	**176**	16
Tax	(32)	**(31)**	(3)
PAT	119	**145**	21

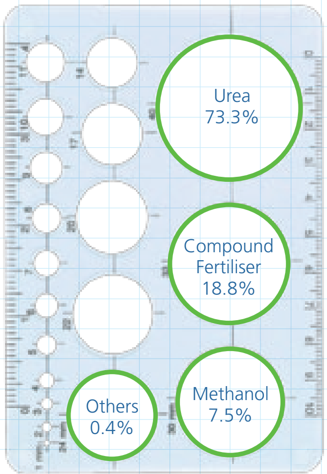
STEADY GROWTH IN REVENUE

RMB million

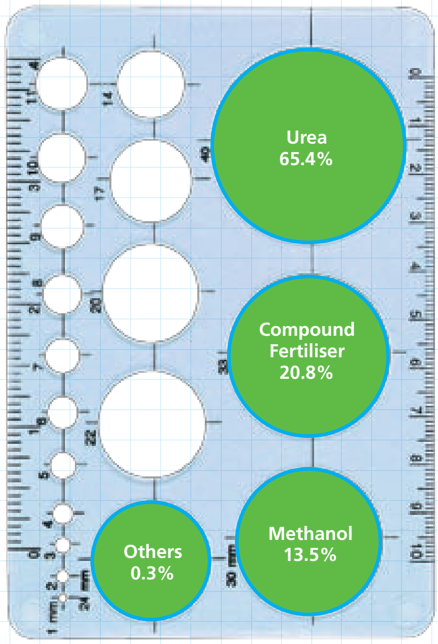
REVENUE BREAKDOWN BY SEGMENT



FY2008



FY2009



FY2010

SALES VOLUME BREAKDOWN BY SEGMENT

'000 tons

1,097
FY2010

1,039
FY2009

662
FY2008

Urea

300
FY2010

231
FY2009

251
FY2008

Compound Fertiliser

194
FY2010

108
FY2009

88
FY2008

Methanol

MAJOR MILESTONES & EVENTS IN 2010

Named "Model Enterprise for Energy Saving and Emission Reduction and Technological Innovation" in Henan Province

Self-owned railway facility passed testing and commenced trial operation

Became constituent stock of NYPC China SME Growth Index

Obtained Certificate of Quality Management issued by Quality Assurance Centre of China Association for Quality

1 2 3 4 5 6

RMB1 million donation to Qinghai Province Yushu Earthquake Relief

China XLX invested approximately 4.9% stake in Hunan Anchun Holdings

Strategic agreement signed with Sinoagric Chain Co. Ltd.

Onsite test by National Engineering Research Center for Wheat on slow release compound fertiliser showed positive outcome and significant crop yield increase

Announced plans to invest RMB3 billion on Urea Plant IV with 800K tpa capacity

AWARDS OBTAINED IN 2010

1. "Model Enterprise for Energy Saving and Emission Reduction and Technological Innovation" in Henan Province

2. Certificate of Integrated Quality, Environmental, Occupational Health and Safety Management System

7 8 9 10 11 12

Winner of 6 awards in the International Annual Report Competition ("ARC Awards")

Joint venture by China XLX and Sinoagric Chain won the bid for Off-peak Storage Program

China XLX named as "Chinese Well-known Brand" by the State Administration for Industry & Commerce of the PRC

STRENGTH + STRATEGY =

ENHANCED CAPACITY

After the third urea plant commenced operation in April 2009, the Group has totally annual production capacity of 1.25 million tons of urea. We have announced fourth urea plant expansion plan in September 2010, which will enable us to have more than 2 million tons of urea annual production capacity by 2013.

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 2010 to the shareholders of the Company (the "**Shareholders**").

FINAL RESULTS

Achieving Stable Profits and Revenue Growth

In 2010, the revenue of the Group was RMB2.85 billion, representing a year-on-year growth of 22% and a compound growth rate of about 26% for the previous five years. Net profits increased by RMB26 million from RMB119 million in 2009 to RMB145 million in 2010, representing a year-on-year growth of 21%. The increase is mainly due to an increase in compound fertiliser gross profit led by higher sales volume & margins.

DIVIDENDS

The Board proposed to issue a final dividend of RMB3 cents per share for the year ended 31 December 2010 (2009: SGD0.6 cents) on 27 May 2011 to the shareholders whose names appear on the Company's register of shareholders on 11 May 2011. The dividend payout ratio was 21% of the after-tax profit.

DIVIDEND PAYOUT RATIO

At the time of its listing on the Singapore Exchange Securities Trading Limited in 2007, 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 between 2007 and 2009. The Company honored its promise for the past three years.

MAJOR INVESTMENT PROJECTS

Expansion of production capacity

In September 2010, China XLX announced expansion plan to invest approximately RMB3 billion to ramp up the fourth urea production plant with annual production capacity of 800,000 tons close to of the existing production base. The aggregate urea production capacity of the Group will increase to more than 2 million tons after its commencement of operation in 2013. As it is difficult for the manufacturing enterprises to have product differentiation in highly fragmented urea market and have pricing power in the PRC, cost control is of great importance. Therefore, the Group made this significant strategic investment to achieve technology advancement through the change of major feedstock, enhance the conversion rate of coal, reduce cost by achieving economy of scale via production capacity expansion, so as to reduce the risk of further increase of production cost due to the increase in anthracite lump coal price and the removal of the subsidy in the fertiliser industry.

PRODUCTION CAPACITY AND OPERATING CONDITIONS

The Group's utilisation rate of production facilities maintained at approximately 100% during the first nine months of 2010. However, the power supply shortage encountered by the industrial enterprises in Henan Province became increasingly serious since the beginning of the fourth quarter as a result of the implementation of "energy-saving and emission-reduction" policy at the end of the State's Eleventh Five-Year Plan Period. Coupled with the significant increase of coal price and the reduction of power generation of power enterprises, power supply was a great challenge for the Group. The Group proactively responded to the difficulties by fully utilising its self-owned power generation facilities. Ultimately, we managed to achieve an annual utilisation rate of more than 90% and maintained our cost leadership in the industry.

The production activities of the Group in 2010:

	For the year ended 31 December					
	2010			2009		
	Total effective production capacity '000 tons	Total actual output '000 tons	Utilisation rate %	Total effective production capacity '000 tons	Total actual output '000 tons	Utilisation rate %
Urea	**1,250**	**1,223**	**98%**	1,118	1,086	97%
Compound fertiliser	**600**	**302**	**50%**	400	252	63%
Methanol	**200**	**195**	**98%**	176	128	73%

Urea

In 2010, the annual urea production capacity of the Group was 1,250,000 tons. From the perspective of the whole industry, there was a 7-8% decrease in actual output of urea from 2009 to 2010, an over 40% increase in the cost of urea's major feedstock (i.e. anthracite lump coal price) in 2010, the State's increase of the natural gas price in the first half of 2010, altogether with the natural gas pipeline transportation fee, representing an aggregate increase of $0.33 per cubic meter. The above factors resulted in a 7% increase of urea's average selling price of 2010 as compared to that of 2009. During the same year, there was a large amount of export volume of urea during the window period of low-tariff season as the international urea price was still higher than the domestic urea price. The aggregate annual export was over 7,020,000 tons, representing a year-on-year increase of more than 107%. Also, the State increased the minimum purchase price of major grains twice in 2010. All these factors played an important supporting role to the urea price.

16% market share in LARGEST agricultural province in the PRC.

Being one of the largest and most cost-effective coal-based urea producers in the PRC, China XLX has established its own power-generating equipment to successfully minimise the adverse impacts brought by power rationing initiatives. In 2010, the Group's capacity utilisation 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 630kg per ton and approximately 26% lower than the industry average. The above enables the Group's production cost competitiveness to surpass its competitors in the industry. Despite the general increase in the prices of coal and industrial electricity in the industry which might create 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 buoyant energy prices could assist in phasing out obsolete production capacities and enhance the integration process of the industry in the long run.

Compound fertiliser

Gross profit for compound fertiliser increased RMB58 million from approximately RMB10 million in FY2009 to RMB68 million in FY2010. The increase was firstly due to a 30% increase in sales quantity as its effective production capacity increased from 400k tons in FY2009 to 600k tons in FY2010. In addition, the gross profit margin of compound fertiliser increased significantly from approximately 2% in FY2009 to approximately 11% in FY2010. This was mainly due to increase in compound fertiliser average selling prices by 4% and reduction in average cost of sales by approximately 5%. Gross profit margin of compound fertiliser in FY2009 was affected by higher-priced raw materials, Mono-Ammonium Phosphate (MAP), purchased in FY2008 which had been fully consumed in FY2009.

Methanol

Gross margins fro methanol rebounded sharply from approximately negative 15% in FY2009 to approximately negative 3% in FY2010. This was due to an increase in average selling prices by about 22% led by increase in demand and decrease in supply. Higher oil prices and a stronger economy increased the demand for dimethoxyethane ("**DME**") and other downstream industries. The legalising of methanol use as a fuel additive also helped to boost demand. Methanol supply decreased this year as there were less imports of methanol this year compared to 2009 and other factors.

DEVELOPMENT STRATEGIES

We are dedicated to strengthening our core business in the coal chemical industry through capacity expansion, cost control, product diversification and securing the value chain.

1. Strengthening core business

The construction of the fourth plant announced in September 2010, will increase our urea capacity from 1.25m tons to over 2m tons and improve our cost efficiency through the use of cheaper inputs and using less electricity. We will also identify some "low carbon economy" projects to fully use our coal gas.

2. Product diversification

We plan to diversify into other products which have less intense competition such as slow/control-released fertiliser, organic fertiliser and phosphate fertilisers.

3. Value chain integration

We already secured our relationship with Sinofert Holdings Limited (00297.HK), the largest fertiliser distributor in China. We plan to further improve our relationship with other distributors and explore ways to secure our relationship with the upstream players such like coal mines and speed up the value chain integration.

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 eight board meetings in the year of 2010 to review and approve matters including the quarterly reports, interim report, annual report, dividend payout ratio, connected transactions and the developmental strategies of the Group. 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 and perfecting the Group's governance structure.

INVESTOR RELATIONS

The Group highly values its relationship with its investors and aims to provide 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

In 2011, the first priority of the central government is the construction of water conservancy in rural areas. The government would significantly increase the capital investment in the central and local water facilities. Chinese government has announced that 10% of the revenue arising from the land grant will be drawn to the construction of irrigation and water conservancy works. In the next ten years, the investment devoted to rural water conservancy construction will be approximately RMB4,000 billion. The financial effort made by the State focusing on the areas of agriculture, farmers and rural areas will continuously grow. The total spending was approximately RMB818 billion in 2010 and is expected to be over RMB900 billion in 2011.

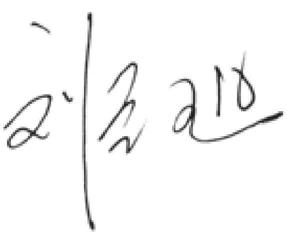
In the first quarter of 2011, spring planting in some areas was affected by bad weather conditions such as drought, which in turn further enhance the risk of inflation as the annual grain yield might be affected. The State Council determined to have another increase in the minimum purchase price of major grains by 10-22% on 9 February 2011 after the twice increase in 2010. The measures were adopted to motivate the Chinese farmers to devote more effort to increasing the agricultural production (including purchase of fertiliser, pesticides and seeds, improving water facilities and irrigation conditions, etc.).

The Board is still optimistic about the prospects for 2011. This is because the central government launched the Twelve Five-Year Plan in 2011, which will continue to support agricultural development. Being a key supporting industry, fertiliser industry will benefit from these efforts. In the meantime, the Group will continue to control the cost, optimise its existing technologies and processes, maintain high utilisation rate and low cost competitiveness in the industry.

The Group is located in Henan Province, the most populous and largest agricultural province as well as the largest urea consumption market in the PRC, and enjoys a unique location advantage. Being the largest fertiliser enterprise in Henan Province, China XLX will make great effort to expand our market share in local area (currently about 16%). Our production capacity will increase to over 2,000,000 tons after the fourth urea production plant coming online in 2013. The change of major feedstock will also help to reduce the urea production cost effectively. In addition, we will fully leverage our strong team of the largest agrochemical service center in Henan Province to actively expand the compound fertiliser business, seek for the possible consolidation of upstream resources, and enhance the profitability of the Group.

APPRECIATION

Last but not the least, on behalf of the Board, I would like to take the opportunity to extend my heartfelt gratitude to all shareholders, the Company's management team, all staff members and all the customers. In 2011, the Group's management and all staff members will work cohesively, embrace every challenge in the course of constructing the fourth urea plant and upstream resources consolidation, uphold the principle of cost effectiveness so as to create better value for the shareholders with better performance, thereby generating better investment returns.



LIU Xingxu
Chairman of the Board
9 March 2011

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.

ENVIRONMENTAL PROTECTION AND SUSTAINABLE DEVELOPMENT

China XLX places much importance on environmental protection matters like energy-saving and emission-reduction issues, and has continuously formulated and improved a series of regulation policies to improve our environmental management and has implemented various eco-friendly projects. In 2010, the Group invested a total of approximately RMB52,000,000 on environment protection practices including the introduction of carbon dioxide emissions system and the use of decarburisation waste gas as raw material in order to reduce air pollution.

China XLX takes the issue of government energy saving initiatives and environmental protection seriously. Through improved management and advance technology, the Group actively promotes the clean production and recycling economy in the nitrogen fertiliser industry to optimise energy-saving and emission-reduction and strengthen the research & development of waste treatment technologies and application.

PUBLIC-SPIRITED PASSION AND CONTRIBUTE TO SOCIETY

China XLX honors integrity in business operations and lawful and faithful tax-paying, which is the philosophy of social responsibility. In 2010, the Group paid approximately RMB43,220,000 taxes in total.

China XLX is also keen to support the local communities in which it operates through various channels such as eco-friendly, educational, cultural activities. The Group is dedicated to keeping heart-felt sincerity and passion to contribute to society. In 2010, the Group donated RMB1,000,000 to Qinghai Province Yushu Earthquake Relief, RMB30,000 to the Elderly Nursing Home in XinXiang County, as well as various supplies worth RMB11,380 to Yinianyuan Elderly House in XinXiang County.

China XLX Donated RMB1,000,000 to Qinghai Province Yushu Earthquake Relief.

COMMITMENT x SUSTAINABILITY =

MAXIMIZED RETURN

We are confident to further increase the shareholders' return on investment by improving our profitability based on our new capacity coming online in 2013 and further reduced production cost.

(1) BUSINESS REVIEW

2010 was a year of fluctuation for the chemical fertiliser industry in the PRC. At the beginning of the year, most regions in the PRC suffered from the cold weather, drought and flooding and this led to a drastic fall in the use of chemical fertiliser, and hence, a slump in price of urea. Regarding the input cost, coal price remained high during the whole year, rising from RMB1,080 per ton in the first quarter to RMB1,500 per ton in the fourth quarter. Towards the end of the year, urea price was going down as the high-tariff season period was extended. With the implement of the policy in energy-saving and emission-reduction, there was limited or even suspension in the supply of electricity throughout a substantial part of the PRC. There were even times that utilisation rate across the board was less than 70%. International oil price continued to increase. All of these factors demanded better performance in the profitability of enterprises. As of the end of 2010, total output of urea from the Group for the year reached 1,223,000 tonnes. The total output of compound fertiliser and methanol for the year reached 302,000 tonnes and 195,000 tonnes respectively. By capitalising from economies of scale and cost efficiencies, the output of all products was higher than the same period in 2009.

Prospects

The Group expects urea prices to be well supported in 2011 due to expected higher food prices resulting from inflationary pressure and climatic conditions, and higher production costs from growing cost of coal, natural gas, electricity, fuel and environmental protection.

The Group expects coal prices to remain stable/high in the second half of 2011 as the small coal mines that were previously shutdown in the PRC resume production after consolidation.

Methanol prices in 2011 are expected to be better than the same period in current year due to higher oil prices and greater demand from the downstream industries such as the DME industry. The use of methanol as a fuel additive should also boost demand in 2011.

The Group expects compound fertiliser demand to grow in 2011 as farmers become more sophisticated and increasingly adopt more balanced application of chemical fertilisers.

Under the guidance of the Twelfth Five-Year Plan, during the course of restructuring the economy in China in the year of 2011, local governments and business enterprises will pursue for industry upgrading, regional development, introduction of emerging strategic industries and urbanisation. As an important segment of the agricultural industry, there is no doubt that the fertilisers industry will be affected by the international food prices and the China's policies for "Agriculture, Farmers and Rural Areas". Global food prices surged significantly during the second half of 2010 after the turnaround and slow recovery that began in the second half of 2008. Faced with a tight food supply in the world, the Ministry of Agriculture recently stated that the primary objective for the agricultural industry in the PRC during the Twelfth Five-Year Period is to secure the safe supply for food in the PRC and to facilitate the relative rapid growth in the agricultural industry. The No. 1 Document issued by the central government in 2011 still placed the emphasis on "Agriculture, Farmers and Rural Areas". There will be substantial increase in the investment on infrastructure facilities in the rural area. In particular, the construction of infrastructure facilities for water supply will be placed as the top priority. There is no doubt that this will lay a strong foundation for the steady development of the fertilisers markets. In the meantime, the fertilisers industry in the PRC will also enter into a new phase of restructuring. The entire industry will tend to be more concentrated and consolidated. The macro-economic control measures of the State and the limitations in energy consumption will phase out some producers with smaller scale, lower efficiency and low level of applied technology. The industry consolidation and restructuring will speed up and competition will become more intensive. Looking ahead, the Group will devote more resources to expanding the market share for urea and compound fertiliser in the PRC and capturing the opportunities brought by the increase in demand in the PRC.

(2) FINANCIAL REVIEW

Revenue

Revenue for the year ended 31 December 2010 increased significantly by about RMB521 million or 22% from approximately RMB2,330 million for the year ended 31 December 2009 to approximately RMB2,851 million for the year ended 31 December 2010. The increase was mainly due to the increase in methanol average selling prices and increase in methanol and compound fertiliser sales volume. Methanol average selling prices increased by approximately 23%. The sales volume of methanol and compound fertiliser increased by 79% and 30% respectively due to the increase in production capacity as the Production Plant III and new compound fertiliser plant were completed in April 2009 and August 2009, respectively.

Urea

Revenue derived from the sales of urea increased by approximately RMB156 million or approximately 9% from approximately RMB1,707 million for year ended 31 December 2009 to approximately RMB1,863 million for the year ended 31 December 2010. Such increase was mainly due to a 7% increase in average selling price of urea in the year ended 31 December 2010 as compared to the same period last year led by higher commodity prices such as food and coal prices. Urea sales volume also increased by 6% in the year ended 31 December 2010 as compared to the same period last year due to the increase in urea production capacity to approximately 1,250,000 tons upon the commencement of operation of Production Plant III in April 2009.

Methanol

Revenue derived from the sales of methanol increased by approximately RMB209 million or approximately 119% from approximately RMB176 million for the year ended 31 December 2009 to approximately RMB385 million for the year ended 31 December 2010. Such increase was mainly due to the increase in average selling price and sales volume of methanol by about 23% and 79% respectively in the year ended 31 December 2010.

Compound fertiliser

Revenue derived from the sales of compound fertiliser increased by approximately RMB156 million or approximately 36% from approximately RMB438 million for the year ended 31 December 2009 to approximately RMB594 million for year ended 31 December 2010. Such increase was primarily resulted from the increase in sales volume by about 26% in the year ended 31 December 2010.

Profitability

Overall gross profit margin decreased from approximately 14% in the year ended 31 December 2009 to approximately 13% in the year ended 31 December 2010 due to the 3% decrease in the gross profit margins for urea.

Urea

Gross profit margin for urea sales declined 3% from approximately 20% for the year ended 31 December 2009 to approximately 17% for the year ended 31 December 2010. Decrease in urea gross profit margin was mainly due to increase in average cost of sales by 8% led by higher coal and electricity prices arisen especially in the three months ended 31 December 2010. However, average selling prices only increased by 7% due to the higher costs.

Methanol

Gross profit margin of methanol increased significantly from approximately negative 15% for the year ended 31 December 2009 to approximately negative 3% for the year ended 31 December 2010. This was due to an increase in average selling prices by about 22% led by increase in demand and decrease in supply. Higher oil prices and a stronger economy increased the demand for dimethoxyethane ("**DME**") and other downstream industries. The legalising of methanol use as a fuel additive also helped to boost demand. Methanol supply decreased this year as there were less imports of methanol this year compared to 2009 and other factors.

Compound fertiliser

Gross profit margin of compound fertiliser increased significantly from approximately 2% for the year ended 31 December 2009 to approximately 11% for the year ended 31 December 2010. This was mainly due to increase in compound fertiliser average selling prices by 4% and reduction in average cost of sales by approximately 5%. Gross profit margin of compound fertiliser for the year ended 31 December 2009 was affected by higher-priced raw materials, Mono-Ammonium Phosphate ("**MAP**"), purchased in 2008 which had been fully consumed for the year ended 31 December 2009.

Other Income and Gains

Other operating income increased by approximately RMB5 million or 43% from RMB12 million for the year ended 31 December 2009 to RMB17 million for the year ended 31 December 2010 mainly due to increase in government subsidy by approximately RMB4 million.

Selling and Distribution Expenses

Selling and distribution expenses increased by approximately RMB22 million or 129% from approximately RMB17 million for the year ended 31 December 2009 to approximately RMB39 million for the year ended 31 December 2010. The increase was mainly due to an increase in urea transportation costs, staff cost and marketing cost by approximately RMB19 million, RMB1.4 million and RMB1.3 million respectively. Starting from the second quarter of 2010, the Group started to incur transportation cost for delivering goods from the plant to railway station.

General and Administrative Expenses

General and administrative expenses decreased by approximately RMB7 million or 6% from approximately RMB111 million for the year ended 31 December 2009 to approximately RMB104 million for the year ended 31 December 2010. The decrease was mainly due to decrease in professional fee by approximately RMB12 million arising from the dual listing cost in Hong Kong in 2009, which was offset by the increase in environment and safety costs by approximately RMB7 million.

Finance Costs

Finance costs increased by approximately RMB16 million or 43% from approximately RMB37 million for the year ended 31 December 2009 to approximately RMB53 million for the year ended 31 December 2010. The increase was due mainly due to the additional interest-bearing loans and borrowings drawdown to finance the capital expenditures in 2010 and RMB5.0 million interest capitalised for the year ended 31 December 2009.

Income Tax Expense

Income tax expense reduced by approximately RMB1 million or 3% from approximately RMB32 million for the year ended 31 December 2009 to approximately RMB31 million for the year ended 31 December 2010. Although overall net profit increased for the year ended 31 December 2010 as compared to last year, there was smaller taxable profits in Henan XLX Fertilizer Co., Ltd, subject to an income tax rate of 12.5% and a withholding tax rate of 5%. On the other hand, the holding company's effective tax rate was negligible as its expenses were more than its income.

Net Profit Attributable to Owners of the Parent

The net profit attributable to owners of the parent increased by approximately RMB26 million or 22% from RMB119 million for the year ended 31 December 2009 to approximately RMB145 million for the year ended 31 December 2010. This is mainly due to the increase in gross profit for compound fertiliser by approximately RMB57 million due to the increase in revenue for compound fertiliser as a result of the additional production capacity of the new compound fertiliser plant, as well as higher profit margin for compound fertiliser as compound fertiliser was affected by higher-priced raw materials which all had been fully consumed for the year ended 31 December 2009. The increase in gross profit from compound fertiliser was partially offset by the increase in sales and distribution cost and finance costs by approximately RMB22 million and RMB17 million respectively.

Financial Resources, Liquidity and Liability Position

As at 31 December 2010, the Group's total assets were approximately RMB3,195,356,000 (2009: RMB2,910,557,000) (of which, current assets were approximately RMB665,075,000 (2009: RMB530,837,000) and non-current assets were approximately RMB2,530,281,000 (2009: RMB2,379,720,000)) and the total liabilities were approximately RMB1,605,866,000 (2009:RMB1,435,914,000) (of which, current liabilities were approximately RMB547,384,000 (2009: RMB508,895,000) and non-current liabilities were approximately RMB1,058,482,000 (2009: RMB927,019,000)), and shareholder's equity reached approximately RMB1,589,490,000 (2009: RMB1,474,643,000).

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%.

	2010 RMB'000 (Audited)	2009 RMB'000 (Audited)
Due to related companies	**723**	1,517
Trade payables	**40,152**	47,435
Bills payable	**37,500**	41,346
Accruals and other payables	**265,049**	364,535
Interest-bearing bank and other borrowings	**1,223,411**	945,152
Less: Cash and cash equivalents	**(162,773)**	(139,796)
Less: Pledged deposits	**(18,780)**	(21,173)
Net debt	**1,382,282**	1,239,016
Shareholders' equity	**1,589,490**	1,474,643
Less: Statutory reserve fund	**(110,678)**	(94,200)
Total capital	**1,478,812**	1,380,443
Capital and net debt	**2,864,094**	2,619,459
Gearing ratio	**48.4%**	47.3%

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

Loans

Amount payable in one year or less, or on demand

	As at 31 December 2010		As at 31 December 2009	
	Secured Loans RMB'000 Audited	**Unsecured Credit Facilities RMB'000 Audited**	Secured Loans RMB'000 Audited	Unsecured Credit Facilities RMB'000 Audited
Bank loans	**30,000**	**170,000**	–	110,000

Amounts payable after one year

	As at 31 December 2010		As at 31 December 2009	
	Secured Loans RMB'000 Audited	**Unsecured Credit Facilities RMB'000 Audited**	Secured Loans RMB'000 Audited	Unsecured Credit Facilities RMB'000 Audited
Bank loans	**90,000**	**923,000**	120,000	705,000
Loans from government	**–**	**10,411**	–	10,152
	90,000	**933,411**	120,000	715,152

As at 31 December 2010, the Group has total of RMB120 million loans which were guaranteed by Xinxiang Xinya Paper Group Ltd., an independent third party of the Group.

Subsidiary

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

Employees

As at 31 December 2010, the Group had 3,415 employees (2009: 3,302 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 2010, the total staff costs of the Group were approximately RMB112,683,000 (2009: RMB94,504,000).

Pledge of Assets

As at 31 December 2010, the Group did not pledge any assets (2009: Nil) as securities for the banking facilities granted by its bankers.

Contingent Liabilities

As at 31 December 2010, the Group had no material contingent liabilities (2009: Nil).

Material litigation and arbitration

As at 31 December 2010, the Group was not involved in any material litigation or arbitration.

(3) SUPPLEMENTARY INFORMATION

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

For the year ended 31 December 2010, there were no material differences between the consolidated financial statements of the Group prepared under SFRSs and IFRSs (which include all IFRS, International Accounting Standards and Interpretations).

2. Operational and Financial Risks

(i) Market Risk

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

(ii) Commodity Price Risk

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

(iii) Interest Rate Risk

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

(iv) Foreign Exchange Risk

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

(v) Inflation and Currency Risk

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC increased by 3.3% in 2010 as compared to a decrease of 0.7% for the same period in 2009. 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 2010, approximately RMB200 million (2009: RMB110 million), or 16.3% (2009: 11.6%) 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 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 in 2009 and 2010. The gearing ratio of the Group as at 31 December 2010 (calculated as net debt divided by total capital plus net debt) was 48.4%, representing an increase of 1.1% as compared to 31 December 2009. As at 31 December 2010, 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)

BOARD OF DIRECTORS

Executive Director

Mr. Liu Xingxu, aged 56, 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. In 2010, Mr. Liu was awarded the qualification of Senior Economist by the People's Government of Henan Province and the EMBA degree from Tsinghua University.

Ms. Yan Yunhua, aged 40, 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 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. 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. She received the EMBA degree from Peking University in 2010.

Mr. Li Buwen, aged 58, 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.

Independent non-executive Directors

Mr. Ong Kian Guan, aged 43, has been appointed as our independent non-executive Director since 11 May 2007. Mr. Ong has been an audit partner with Baker Tilly TFW LLP 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 48, 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 44, has been appointed as our independent non-executive Director since 11 May 2007. He is a partner in a Singapore law firm, practising corporate finance and general corporate law. He is an independent director of Luzhou Biochem Technology Limited and Consciencefood Holdings Limited. 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.

Senior Management

Mr. Ru Zhengtao, aged 54, 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 the 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 50, 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 47, 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 the 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 44, 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 the 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 and obtained the EMBA degree from Tsinghua University in 2009.

JOINT COMPANY SECRETARIES

Mr. Cheah Soon Ann Jeremy, aged 35, 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 52, 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., 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, Lereno 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. Lee Wai Fun Betty, aged 50, has been appointed as one of our joint company secretaries since 10 March 2011. Ms. Lee is an associate member of the Institute of Chartered Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. She is ordinarily resident in Hong Kong. She also currently acts as the joint company secretary of the following listed issuers: Harbin Power Equipment Company Limited (stock code: 01133) and Jiangsu Expressway Company Limited (stock code: 00177).

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.

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 specialised 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 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 2010 (8 meetings were held for the Board during the year ended 31 December 2010):

	Board	Audit Committee	Remuneration Committee	Nominating Committee
No. of meetings held	8	4	1	1
Mr. Liu Xingxu	8	N.A.	N.A.	1
Ms.Yan Yunhua	8	N.A.	N.A.	N.A.
Mr. Li Buwen	8	N.A.	N.A.	N.A.
Mr. Ong Kian Guan	8	4	1	N.A.
Mr. Li Shengxiao	8	4	1	1
Mr. Ong Wei Jin	8	4	1	1

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.

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. Li Shengxiao and Mr. Ong Wei Jin will retire, and being eligible for election, offer themselves for re-election at the forthcoming annual general meeting to be held on 26 April 2011.

For the year ended 31 December 2010, 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 34 to 38 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 51 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.

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.

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.

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.

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. Li Shengxiao and Mr. Ong Wei Jin will retire, being eligible, offer themselves for re-election at the forthcoming AGM to be held on 26 April 2011.

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.

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, any 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.

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 2010 are as follows:

	Number of directors		Top Five Key Executive	
	2010	2009	**2010**	2009
S$500,000 and above	**–**	–	**–**	–
S$250,000 to S$499,999	**–**	–	**–**	–
Below S$249,999	**6**	6	**5**	5
Total	**6**	6	**5**	5

The summary compensation table for the Directors of the Group for the financial year ended 31 December 2010 is set out below:

	Salary %	Bonus %	Directors' Fees %	Allowances and Other Benefits %	Total Compensation %
S$500,000 and above	–	–	–	–	–
S$250,000 to S$499,999	–	–	–	–	–
Below S$249,999					
Mr Liu Xingxu	98	–	–	2	100
Ms Yan Yunhua	97	–	–	3	100
Mr Li Buwen	97	–	–	3	100
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 2010.

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.

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 62 to 63 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.

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$280,000 (2009: S$217,000) to the external auditor for its audit services, and has paid an audit fees of approximately S$50,000 to the external auditors for its other professional services.

The Company discloses the contact information, mobile number and email address of the Chairman for staff communication.

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

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.

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.hk at which shareholders can access information on the Group, and Roadshows organised 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.

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 2010 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.	15,276	–

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.

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 2010.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiary, namely Henan Xinlianxin Fertiliser Co., Ltd. ("**Henan XLX Fertiliser**"), are manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 64 to 120 of this annual report.

No interim dividend was paid during the year. The Directors recommend the payment of a final dividend of Renminbi ("**RMB**") 3.00 cents (2009: SGD0.6 cent) per share in respect of the year to shareholders of the Company (the "**Shareholders**") on the register of members on 11 May 2011. 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.

SUMMARY OF FINANCIAL INFORMATION

A summary of the consolidated results and assets and liabilities of the Group for the last four financial years, as extracted from the published audited financial statements, and the pro forma consolidated results and assets and liabilities of the Group for one preceding year 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 on page 121 of this annual report.

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 the statements of changes in equity.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling RMB1,041,380.

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. Purchases from the Group's five largest suppliers accounted for 33% of the total purchases for the year and purchases from the largest supplier included therein amounted to 11%.

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.

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, Messrs. Li Shengxiao and Ong Wei Jin 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 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 34 to 38 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.

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 the Directors' remuneration are set out in note 9 to the financial statements.

HIGHEST PAID INDIVIDUALS

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

DIRECTORS' INTERESTS IN CONTRACTS

No Director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or its subsidiary was a party during the year under review.

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

As at 31 December 2010, 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 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 Rules Governing the Listing of Securities on the SEHK (the "**Listing Rules**"), were as follows:

Long positions in ordinary shares of the Company

	Number of issued Shares in the Company			
Name of Directors	Personal interests	Corporate interests	Total	Percentage of the Company's issued share capital
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 exercise the voting rights and the rights to the day-to-day management in Pioneer Top.

(b) Ms. 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, Ms. Yan Yunhua is irrevocably granted the absolute discretion to exercise the voting rights and the rights to the day-to-day management in Go Power.

(c) Mr. Liu Xingxu holds 16% of the equity interest in Pioneer Top in trust for Mr. Li Buwen in accordance with a trust agreement, 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 2010 and 21 January 2011.

Save as disclosed above, as at 31 December 2010, 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 above-mentioned Model Code.

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 a 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.

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

As at 31 December 2010, 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 (Note (a))	Registered owner	343,376,000	34.34%
Mr. Liu Xingxu (Note (a))	Deemed interest and interest in a controlled company	343,376,000	34.34%
Go Power (Note (b))	Registered owner	280,624,000	28.06%
Ms. Yan Yunhua (Note (b))	Deemed interest and interest in a controlled company	280,624,000	28.06%
Ms. Yan Yunhua (Note (b))	Directly 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, the Company's 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, the Company's senior management, and approximately 7% for Mr. Zhu Xingye and 7% for Mr. Shang Dewei, the Company's employees. Mr. 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 2010, no person, other than the Directors of the Company, 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 the Company's connected persons under Rule 14A.11(4)(a) of the Listing Rules. XLX Chem Group is also deemed as the Company's "interested person" in accordance with the listing rules of the SGX-ST (the "**Listing Manual**") in Singapore.

(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 RMB112,000 for the year ended 31 December 2010.

(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 RMB1,810,000 for the year ended 31 December 2010.

(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 2010, the aggregate amount received by the Group from XLX Chem Group amounted to RMB6,078,000 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 2010, the aggregate amount paid by the Group for the sourcing of equipment was RMB4,436,000.

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 Company's 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.

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 39 to 50 of this annual report.

SUBSIDIARY

Details of the Company's subsidiary are set out in note 18 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 end of the reporting period 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, and 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 a going concern basis, unless it is inappropriate to assume that the Company and the Group could continue to operate.

The Directors are responsible for the proper keeping of accounting records 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.

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 meetings 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 four meetings during the year with full attendance from all members. The AC has also met with the Company's 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.

AUDITORS

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

On behalf of the board of directors:

Liu Xingxu	**Yan Yunhua**
Director	*Director*

9 March 2011

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 2010 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

Yan Yunhua
Director

9 March 2011

FINANCIAL SECTION

To the shareholders of China XLX Fertiliser Ltd.
(Incorporated in Singapore with limited liability)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of China XLX Fertiliser Ltd. (the "**Company**") and its subsidiary (together, the "**Group**") set out on pages 64 to 120, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the 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 information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with the provisions of the Singapore Companies Act (the "**Act**") and Singapore Financial Reporting Standards, and for devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair financial statements and to maintain accountability of assets.

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements of the Group and the statement of financial position and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2010 and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In our opinion, the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

9 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	6	**2,851,403**	2,329,607
Cost of sales		**(2,487,342)**	(2,014,212)
Gross profit		**364,061**	315,395
Other income and gains	6	**16,664**	11,661
Selling and distribution expenses		**(38,686)**	(16,902)
General and administrative expenses		**(104,150)**	(110,536)
Other expenses		**(8,461)**	(11,587)
Finance costs	8	**(53,447)**	(36,522)
PROFIT BEFORE TAX	7	**175,981**	151,509
Income tax expense	11	**(31,410)**	(32,285)
Profit attributable to owners of the parent	12	**144,571**	119,224
OTHER COMPREHENSIVE INCOME			
Loss on hedging instruments		**–**	(19,807)
Total comprehensive income attributable to owners of the parent		**144,571**	99,417
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB cents per share)			
Basic and diluted	14	**14.46**	11.92

Details of the dividend proposed for the year are disclosed in note 13 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	**2,414,545**	2,302,013
Prepaid land lease payments	16	**89,860**	71,192
Available-for-sale investment	17	**21,778**	–
Prepayments	21	**4,098**	6,515
Total non-current assets		**2,530,281**	2,379,720
CURRENT ASSETS			
Inventories	19	**353,922**	221,911
Trade receivables	20	**13,567**	568
Bills receivable	20	**18,720**	40,708
Prepayments	21	**73,957**	58,476
Deposits and other receivables	21	**7,461**	36,871
Income tax recoverable		**15,895**	11,334
Pledged deposits	22, 25	**18,780**	21,173
Cash and cash equivalents	22	**162,773**	139,796
Total current assets		**665,075**	530,837
Total assets		**3,195,356**	2,910,557
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Due to related companies	23	**723**	1,517
Trade payables	24	**40,152**	47,435
Bills payable	25	**37,500**	41,346
Accruals and other payables	26	**265,049**	299,500
Income tax payable		**–**	102
Deferred grants	27	**3,960**	8,995
Interest-bearing bank and other borrowings	28	**200,000**	110,000
Total current liabilities		**547,384**	508,895
Net current assets		**117,691**	21,942
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,647,972**	2,401,662

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Accruals	26	–	65,035
Interest-bearing bank and other borrowings	28	**1,023,411**	835,152
Deferred tax liabilities	29	**35,071**	26,832
Total non-current liabilities		**1,058,482**	927,019
Total liabilities		**1,605,866**	1,435,914
Net assets		**1,589,490**	1,474,643
Equity attributable to owners of the parent			
Issued capital	30	**836,671**	836,671
Statutory reserve fund	31	**110,678**	94,200
Retained profits	31	**612,141**	514,550
Proposed final dividend	13	**30,000**	29,222
Total equity		**1,589,490**	1,474,643
Total equity and liabilities		**3,195,356**	2,910,557

Group

	Notes	Issued capital (note 30) RMB'000	Statutory reserve fund (note 31) RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2009							
As previously reported		772,328	77,770	19,807	581,001	–	1,450,906
Prior year adjustments		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)	–	–
2008 final dividend declared		–	–	–	–	(75,680)	(75,680)
Transfer from proposed 2008 final dividend to retained profits		–	–	–	247	(247)	–
Proposed 2009 final dividend	13	–	–	–	(29,222)	29,222	–
At 31 December 2009		836,671	94,200	–	514,550	29,222	1,474,643
At 1 January 2010		**836,671**	**94,200**	**–**	**514,550**	**29,222**	**1,474,643**
Total comprehensive income for the year		**–**	**–**	**–**	**144,571**	**–**	**144,571**
Transfer to statutory reserve fund	31	**–**	**16,478**	**–**	**(16,478)**	**–**	**–**
2009 final dividend declared		**–**	**–**	**–**	**–**	**(29,724)**	**(29,724)**
Transfer from retained profits to proposed 2009 final dividend		**–**	**–**	**–**	**(502)**	**502**	**–**
Proposed 2010 final dividend	13	**–**	**–**	**–**	**(30,000)**	**30,000**	**–**
At 31 December 2010		**836,671**	**110,678**	**–**	**612,141**	**30,000**	**1,589,490**

Company

	Notes	Issued capital (note 30) RMB'000	Hedging reserve RMB'000	Retained profits/ (accumulated losses) RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2009						
As previously reported		772,328	19,807	41,414	–	833,549
Prior year adjustments		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
2008 final dividend declared		–	–	–	(75,680)	(75,680)
Transfer from proposed 2008 final 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
At 1 January 2010		**836,671**	**–**	**(69,806)**	**29,222**	**796,087**
Total comprehensive income for the year		**–**	**–**	**103,026**	**–**	**103,026**
2009 final dividend declared		**–**	**–**	**–**	**(29,724)**	**(29,724)**
Transfer from retained profits to proposed 2009 final dividend		**–**	**–**	**(502)**	**502**	**–**
Proposed 2010 final dividend	13	**–**	**–**	**(30,000)**	**30,000**	**–**
At 31 December 2010		**836,671**	**–**	**2,718**	**30,000**	**869,389**

The difference between the proposed and declared 2009 final dividend of RMB502,000 (2009: RMB247,000) represented the exchange difference arising from the depreciation (2009: appreciation) of Renminbi against Singapore dollar which was realised upon payment and was debited (2009: credited) to the retained profits as at 31 December 2010.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**175,981**	151,509
Adjustments for:			
Amortisation of prepaid land lease payments	7	**1,722**	1,436
Depreciation of property, plant and equipment	7	**165,905**	124,536
Loss on disposal of items of property, plant and equipment	7	**6,387**	712
Amortisation of deferred grants	6	**(495)**	(1,545)
Fair value loss on derivative financial assets	7	**–**	8,760
Interest income	6	**(456)**	(1,328)
Finance costs	8	**53,447**	36,522
		402,491	320,602
(Increase)/decrease in inventories		**(132,011)**	13,054
Decrease/(increase) in trade and bills receivables		**8,989**	(15,029)
Increase in prepayments		**(15,065)**	(30,320)
Decrease/(increase) in deposits and other receivables		**29,410**	(30,777)
Decrease in amounts due to related companies		**(794)**	(159)
(Decrease)/increase in trade and bills payables		**(11,129)**	41,021
(Decrease)/increase in accruals and other payables		**(12,185)**	33,899
Cash flows generated from operations		**269,706**	332,291
Government grants (returned)/received	27	**(4,540)**	800
Interest paid		**(53,447)**	(41,522)
Interest received		**456**	1,328
Tax paid		**(27,834)**	(35,522)
Net cash inflow from operating activities		**184,341**	257,375

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		**4,036**	375
Purchases of items of property, plant and equipment	32(i)	**(373,744)**	(489,633)
Purchases of land use rights	16	**(20,806)**	–
Purchase of an available-for-sale investment	17	**(21,778)**	–
Decrease/(increase) in pledged time deposits		**2,393**	(21,173)
Net cash outflow from investing activities		**(409,899)**	(510,431)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares		**(29,724)**	(75,680)
Proceeds from loans and borrowings		**1,013,259**	1,170,299
Repayments of loans and borrowings		**(735,000)**	(893,121)
Consideration for termination of derivative financial assets	7	**–**	(8,760)
Net cash inflow from financing activities		**248,535**	192,738
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**22,977**	(60,318)
Cash and cash equivalents at beginning of year		**139,796**	200,114
Cash and cash equivalents at end of year		**162,773**	139,796
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	22	**162,773**	139,796

STATEMENT OF FINANCIAL POSITION

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Investment in a subsidiary	18	**800,000**	800,000
Available-for-sale investment	17	**21,778**	–
Total non-current assets		**821,778**	800,000
CURRENT ASSETS			
Due from a subsidiary	18	**53,851**	8,851
Prepayments and other receivables	21	**546**	–
Cash and cash equivalents	22	**836**	2,835
Total current assets		**55,233**	11,686
Total assets		**877,011**	811,686
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Accruals		**7,622**	15,497
Income tax payable		**–**	102
Total current liabilities		**7,622**	15,599
Net current assets/(liabilities)		**47,611**	(3,913)
Total liabilities		**7,622**	15,599
Net assets		**869,389**	796,087
Equity attributable to owners of the parent			
Issued capital	30	**836,671**	836,671
Retained profits/(accumulated losses)	31	**2,718**	(69,806)
Proposed final dividend	13	**30,000**	29,222
Total equity		**869,389**	796,087
Total equity and liabilities		**877,011**	811,686

1. CORPORATE INFORMATION

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are dual primary listed on the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") and The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721. The principal place of business of the Group is located at Xinxiang High Technology Development Zone (Xiaoji Town), Henan Province, the People's Republic of China (the "**PRC**"). The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiary are the 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 SFRS**")) issued by the Singapore Accounting Standards Council.

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

2.2 CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted the following standards and interpretations mandatory for annual financial periods beginning on or after 1 January 2010.

- Revised SFRS 27 *Consolidated and Separate Financial Statements*
- Amendments to SFRS 39 *Financial Instruments: Recognition and Measurement* – Eligible Hedged Items
- Amendments to SFRS 101 *First-time Adoption of Financial Reporting Standards (Additional Exemptions for First-time Adopters)*
- Amendments to SFRS 102 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
- Revised SFRS 103 *Business Combinations*
- Amendments to SFRS 105 *Non-current Assets Held for Sale and Discontinued Operations*
- INT SFRS 117 *Distributions of Non-cash Assets to Owners*
- Improvements to SFRSs issued in 2009:
  - – Amendments to SFRS 38 *Intangible Assets*
  - – Amendments to SFRS 102 *Share-based Payment*
  - – Amendments to SFRS 108 *Operating Segments*
  - – Amendments to INT SFRS 109 *Reassessment of Embedded Derivatives*
  - – Amendments to INT SFRS 116 *Hedges of a Net Investment in a Foreign Operation*
  - – Amendments to SFRS 1 *Presentation of Financial Statements*
  - – Amendments to SFRS 7 *Statement of Cash Flows*
  - – Amendments to SFRS 17 *Leases*
  - – Amendments to SFRS 36 *Impairment of Assets*
  - – SFRS 39 *Financial Instruments: Recognition and Measurement*
  - – Amendments to SFRS 105 *Non-current Assets Held for Sale and Discontinued Operations*

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

2.3 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

Description	Effective for annual periods beginning on or after
Amendment to SFRS 32 *Financial Instruments: Presentation – Classification of Rights Issues*	1 February 2010
INT SFRS 119 *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
Amendments to SFRS 101 *Limited Exemption from Comparative SFRS 107 Disclosures for First-time Adopters*	1 January 2011
Revised SFRS 24 *Related Party Disclosures*	1 January 2011
Amendments to INT SFRS 114 *Prepayments of a Minimum Funding Requirement*	1 January 2011
INT SFRS 115 *Agreements for the Construction of Real Estate*	1 January 2011
Improvements to SFRSs issued in 2010:	
– Amendments to SFRS 101 *First-time Adoption of Financial Reporting Standards*	1 January 2011
– Amendments to SFRS 103 *Business Combinations*	1 July 2010
– Amendments to SFRS 107 *Financial Instruments: Disclosures*	1 January 2011
– Amendments to SFRS 1 *Presentation of Financial Statements*	1 January 2011
– Transition requirements for amendments arising as a result of SFRS 27 *Consolidated and Separate Financial Statements*	1 July 2010
– Amendments to SFRS 34 *Interim Financial Reporting*	1 January 2011
– Amendments to INT SFRS 113 *Customer Loyalty Programmes*	1 January 2011

The Company expects that the adoption of the above pronouncements will not have a significant impact on the financial statements in the period of initial application, except for the explicit disclosure requirements on SFRS 24, as described below.

Revised SFRS 24 *Related Party Disclosures*

The revised SFRS 24 clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised SFRS 24 expands the definition of a related party and would treat two entities as related to each other whenever a person (or a close member of that person's family) or a third party has control or joint control over the entity, or has significant influence over the entity. The revised standard also introduces a partial exemption of disclosure requirements for government-related entities. The Group is currently assessing the impact of the changes to the definition of a related party has on the disclosure of its related party transactions. As this is a disclosure standard, the adoption of this standard from 1 January 2011 will have no impact on the financial position or financial performance of the Group.

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 end of the reporting period. The financial statements of the subsidiary used in the preparation of the consolidated financial statements are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions are eliminated in full.

Consolidation of the subsidiary in the PRC is based on the subsidiary's financial statements prepared in accordance with SFRSs. Profits reflected in the financial statements prepared in accordance with SFRSs may differ from those reflected in the PRC statutory financial statements of the 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 each entity in the Group operates, i.e., functional currency, to be RMB. Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Foreign currency transactions

Transactions in foreign currencies are measured and recorded in the respective functional currencies of the Company and its subsidiary at exchange rates approximating those ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the end of the reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in the profit or loss except for exchange differences arising on monetary items that form part of the Group's net investment in foreign operations, which are recognised initially in other comprehensive income and accumulated under foreign currency translation reserve in equity. The foreign currency translation reserve is reclassified from equity to profit or loss of the Group on disposal of the foreign operation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 profit or loss to the extent of dividends received and receivable. The Company's investment in a subsidiary is stated at cost less any impairment losses.

Related parties

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

(a) the party, directly, or indirectly through one or more intermediaries,

- (i) controls, is controlled by, or is under common control with, the Group;
- (ii) has an interest in the Group that gives it significant influence over the Group; or
- (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group 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 Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment and depreciation (continued)

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

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

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

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

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

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

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 profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows expected to be generated by the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for assets that are previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increase cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised previously. Such reversal is recognised in profit or loss unless the asset is measured at revalued amount, in which case the reversal is treated as a revaluation increase.

Financial assets

Initial recognition and measurement

Financial assets are recognised in the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial assets at initial recognition.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of financial assets not at fair value through profit or loss, directly attributable transaction costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial assets (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

(a) Loans and receivables

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

(b) Available-for-sale financial assets

Available-for-sale financial assets include equity and debt securities. Equity investments classified as available-for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial assets are subsequently measured at fair value. Any gains or losses from changes in fair value of the financial asset are recognised in other comprehensive income, except that impairment losses, foreign exchange gains and losses on monetary instruments and interest calculated using the effective interest method are recognised in profit or loss. The cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when the financial asset is derecognised.

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

Derecognition

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 had been recognised in other comprehensive income is recognised in profit or loss.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets

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

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

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

Financial assets carried at cost

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment include (i) significant financial difficulty of the issuer or obligor, (ii) information about significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in equity instrument may not be recovered; and (iii) a significant or prolonged decline in the fair value of the investment below its costs. "Significant" is to be evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost.

If an available-for-sale financial asset is impaired, an amount comprising the difference between its acquisition cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is transferred from other comprehensive income and recognised in profit or loss. Reversals of impairment losses in respect of equity instruments are not recognised in profit or loss; increase in their fair value after impairment are recognised directly in other comprehensive income.

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increases can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed in profit or loss.

Financial liabilities

Initial recognition and measurement

Financial liabilities are recognised on the statement of financial position when, and only when, the Group becomes a party to the contractual provisions of the financial instrument. The Group determines the classification of its financial liabilities at initial recognition.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

(a) Financial liabilities at fair value through profit or loss

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

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value. Any gains or losses arising from changes in fair value of the financial liabilities are recognised in profit or loss.

(b) Other financial liabilities

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the profit or loss when the liabilities are derecognised, and through the amortisation process.

Derecognition

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

Cash and cash equivalents

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Where necessary, allowance is provided for damaged, obsolete and slow moving items to adjust the carrying value of inventories to the lower of cost and net realisable value.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of 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 grants

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

Trade and other receivables

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Borrowing costs

Borrowing costs are capitalised as part of the cost of a qualifying asset if they are directly attributable to the acquisition, construction or production of that asset. Capitalisation of borrowing costs commences when the activities to prepare the assets for their intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are substantially completed for their intended use or sale. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Employee benefits – pension benefits

The employees of the Group's 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 its payroll costs as stipulated by the PRC regulations to a pension fund managed by government agencies, which are responsible for administering these amounts for the 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 profit or loss 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes

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

Current tax

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

Current income taxes are recognised in profit or loss except to the extent that the tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

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 carryforward 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 carryforward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred 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.

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 is:

(a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group; or

(b) a present obligation that arises from past events but is not recognised because:

  (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation; or

  (ii) the amount of the obligation cannot be measured with sufficient reliability.

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

Contingent liabilities and assets are not recognised on the consolidated statement of financial position of the Group, except for contingent liabilities assumed in a business combination that are present obligations and which the fair values can be reliably determined.

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 profit or loss 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 profit or loss 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.

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 other comprehensive income 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 profit or loss.

Amounts recognised in other comprehensive income is transferred to profit or loss in the period that the hedged item affects profit or loss, 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 other comprehensive income 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 other comprehensive income are transferred to profit or loss. 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 other comprehensive income remains in other comprehensive income 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 profit or loss 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

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Group's 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 2010 were RMB15,895,000 and RMB35,071,000, respectively (2009: net income tax recoverable and deferred tax liabilities were RMB11,232,000 and RMB26,832,000, 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 and therefore depreciation charges could be changed in line with revisions to expected economic useful lives. The carrying amount of the Group's plant and machinery at 31 December 2010 was RMB1,613,726,000 (2009: RMB1,613,354,000).

Impairment of available-for-sale investment

The Group classifies a certain investment as available-for-sale and recognises movements of its fair value in equity. When the fair value declines, management makes assumptions about the decline in value to determine whether there is an impairment that should be recognised in profit or loss. At 31 December 2010, no impairment loss has been recognised for an available-for-sale investment. The carrying amount of the available-for-sale investment was RMB21,778,000 (2009: Nil).

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

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

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Allocation basis

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise 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 a major customer

During the years ended 31 December 2010 and 2009, sales to the Group's major customer amounted to RMB238,610,000 (or 8.4% of the total sales) and RMB174,034,000 (or 7.5% of the total sales), respectively.

Segment profit definition

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

Group

Year ended 31 December 2010	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	1,863,208	594,214	385,298	8,683	–	2,851,403
Intersegment sales	167,385	–	–	7,074	(174,459)	–
Total revenue	2,030,593	594,214	385,298	15,757	(174,459)	2,851,403
Segment profit/(loss)	306,361	67,585	(10,094)	209	–	364,061
Interest income						456
Unallocated expenses, net						(135,089)
Financial costs						(53,447)
Profit before tax						175,981
Income tax expense						(31,410)
Profit attributable to owners of the parent						144,571
Other segment information:						
Depreciation of property, plant and equipment						165,905
Amortisation of prepaid land lease payments						1,722

5. OPERATING SEGMENT INFORMATION (CONTINUED)

Year ended 31 December 2009	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	1,706,662	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
Interest income						1,328
Unallocated expenses, net						(128,692)
Financial costs						(36,522)
Profit before tax						151,509
Income tax expense						(32,285)
Profit attributable to owners of the parent						119,224
Other segment information:						
Depreciation of property, plant and equipment						124,536
Amortisation of prepaid land lease payments						1,436

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:

	2010 RMB'000	2009 RMB'000
Revenue		
Sale of goods	**2,851,403**	2,329,607
Other income and gains		
Bank interest income	**456**	1,328
Sale of by-products	**5,269**	2,378
Service fee income from related parties	**112**	77
Amortisation of deferred grants (note 27)	**495**	1,545
Subsidy income	**8,020**	4,245
Others	**2,312**	2,088
	16,664	11,661

7. PROFIT BEFORE TAX

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold #		**2,487,342**	2,014,212
Depreciation of property, plant and equipment	15	**165,905**	124,536
Amortisation of prepaid land lease payments	16	**1,722**	1,436
Minimum lease payments under operating leases:			
Land		**356**	1,948
Buildings		**948**	1,238
		1,304	3,186
Auditors' remuneration		**1,443**	1,057
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and bonuses		**93,510**	75,882
Contributions to defined contribution plans		**14,176**	14,252
Welfare expenses		**4,997**	4,370
		112,683	94,504
Unrealised exchange loss *		**443**	562
Loss on disposal of items of property, plant and equipment *		**6,387**	712
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 RMB19,223,000 (2009: RMB17,284,000) disclosed under employee benefit expenses and depreciation charges of RMB155,722,000 (2009: RMB118,341,000) disclosed under depreciation.

8. FINANCE COSTS

The Group's finance costs are analysed as follows:

	2010 RMB'000	2009 RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	**53,187**	41,079
Interest on government loans	**260**	443
	53,447	41,522
Less: Interest capitalised (note 32(ii))	**–**	(5,000)
	53,447	36,522

9. DIRECTORS' REMUNERATION

Details of directors' remuneration are as follows:

	2010 RMB'000	2009 RMB'000
Fees	**800**	700
Other emoluments:		
Salaries, allowances and benefits in kind	**2,286**	2,292
Pension scheme contributions	**54**	48
	2,340	2,340
	3,140	3,040

(a) Independent non-executive directors

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

	2010 RMB'000	2009 RMB'000
Ong Kian Guan	**300**	250
Li Shengxiao	**250**	225
Ong Wei Jin	**250**	225
	800	700

There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2010 (2009: Nil).

9. DIRECTORS' REMUNERATION (CONTINUED)

(b) Executive directors

Year ended 31 December 2010	**Fees RMB'000**	**Salaries, allowances and benefits in kind RMB'000**	**Pension scheme contributions RMB'000**	**Total remuneration RMB'000**
Liu Xingxu	–	882	18	900
Yan Yunhua	–	702	18	720
Li Buwen	–	702	18	720
	–	2,286	54	2,340

Year ended 31 December 2009	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions 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

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2010 (2009: 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 (2009: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2009: two) non-directors, highest paid employees for the year are as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries, allowances and benefits in kind	**1,188**	258
Performance related bonuses	**102**	700
Pension scheme contributions	**210**	32
	1,500	990

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

	2010	2009
Nil to RMB500,000	**–**	2
RMB500,001 to RMB1,000,000	**2**	–
	2	2

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

11. INCOME TAX

The Company is incorporated in Singapore and is subject to income tax rate of 17% (2009: 17%) for the year.

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

The Company's subsidiary in Mainland China is subject to income tax rate of 25% (2009: 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 years ended 31 December 2009 and 2010, the subsidiary was in its third and fourth profitable years, respectively 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 2010 and 2009 are:

Group

	2010 **RMB'000**	2009 RMB'000
Current – Singapore		
Charge for the year	**–**	102
Current – PRC		
Charge for the year	**23,043**	23,968
Underprovision in respect of prior years	**128**	–
Deferred (note 29)	**8,239**	8,215
Total tax charge for the year	**31,410**	32,285

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:

	2010 **RMB'000**	2009 RMB'000
Profit before tax	**175,981**	151,509
Tax at statutory tax rates	**44,953**	40,450
Expenses not deductible for tax	**1,584**	7,153
Effect of withholding tax at 5% on the distributable profits of the PRC subsidiary	**8,239**	8,215
Effect of a tax holiday	**(23,494)**	(23,533)
Adjustments in respect of current tax of previous periods	**128**	–
Tax charge for the year at the effective tax rate	**31,410**	32,285

12. NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB103,026,000 (2009: RMB56,141,000) which has been dealt with in the financial statements of the Company.

13. DIVIDEND

	2010	2009
	RMB'000	RMB'000
Proposed final dividend – RMB3.00 cents (2009: SGD0.6 cent) per ordinary share	**30,000**	29,222

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 (2009: 1,000,000,000) ordinary shares outstanding during the year.

There were no potentially dilutive ordinary shares in existence during the years ended 31 December 2009 and 2010 and therefore the diluted earnings per share amounts for those years were the same as the basic earnings per share amounts.

15. PROPERTY, PLANT AND EQUIPMENT

Group

31 December 2010

	Buildings RMB'000	Other fixtures and structures RMB'000	Plant and machinery RMB'000	Office equipment and furniture RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:							
At 1 January 2010	210,316	237,553	1,936,179	55,248	11,054	224,225	2,674,575
Additions	–	252	9,677	6,180	4,630	268,121	288,860
Transfers	21,711	23,862	133,420	16,190	–	(195,183)	–
Disposals	(169)	(955)	(28,006)	(814)	(228)	–	(30,172)
At 31 December 2010	231,858	260,712	2,051,270	76,804	15,456	297,163	2,933,263
Accumulated depreciation:							
At 1 January 2010	9,938	18,613	322,825	17,772	3,414	–	372,562
Depreciation charged for the year	9,224	10,307	132,812	11,189	2,373	–	165,905
Disposals	(23)	(801)	(18,093)	(766)	(66)	–	(19,749)
At 31 December 2010	19,139	28,119	437,544	28,195	5,721	–	518,718
Net carrying amount:							
At 31 December 2010	212,719	232,593	1,613,726	48,609	9,735	297,163	2,414,545

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

16. PREPAID LAND LEASE PAYMENTS

Group

	Notes	2010 RMB'000	2009 RMB'000
Carrying amount at 1 January		**72,761**	74,197
Additions		**20,806**	–
Amortisation during the year	7	**(1,722)**	(1,436)
Carrying amount at 31 December		**91,845**	72,761
Current portion included in prepayments	21	**(1,985)**	(1,569)
Non-current portion		**89,860**	71,192

The Group's leasehold land is held under medium-term leases and situated in Mainland China where the Group's manufacturing and storage facilities reside. The leasehold land has a remaining tenure from 43 to 48 years (2009: from 44 to 49 years).

17. AVAILABLE-FOR-SALE INVESTMENT

	Group and Company	
	2010 RMB'000	2009 RMB'000
Listed equity investment, at fair value:		
Singapore	**21,778**	–

The above investment in equity securities is designated as an available-for-sale financial asset and has no fixed maturity or coupon rate.

18. INTEREST IN A SUBSIDIARY

	Company	
	2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**800,000**	800,000

The amount due from a subsidiary is unsecured, interest-free and has 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% (2009: 100%)	Manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution

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

The statutory audited financial statements of the subsidiary for the year ended 31 December 2010 were not audited by Ernst & Young LLP, Singapore or another member firm of the Ernst & Young global network.

19. INVENTORIES

	Group 2010 RMB'000	2009 RMB'000
Statement of financial position:		
Raw materials	**216,373**	137,797
Parts and spares	**13,129**	11,528
Work-in-progress	**6,758**	2,668
Finished goods	**117,662**	69,918
	353,922	221,911
Income statement:		
Inventories recognised as expense in cost of sales	**2,312,397**	1,878,587

20. TRADE AND BILLS RECEIVABLES

	Group 2010 RMB'000	2009 RMB'000
Trade receivables	**13,567**	890
Impairment	**–**	(322)
	13,567	568
Bills receivable	**18,720**	40,708

Trade receivables are non-interest-bearing and are normally settled on terms of 30 to 90 days. They are recognised at their original invoice amounts which represent their fair values on initial recognition. The Group's bills receivable are non-interest-bearing and are normally settled on terms of 90 to 180 days. Trade and bills receivables are denominated in RMB.

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

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:

	2010 RMB'000	2009 RMB'000
Within 1 month	**13,131**	513
1 to 3 months	**276**	54
3 to 6 months	**160**	–
6 to 12 months	**–**	1
	13,567	568

20. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	2010 RMB'000	2009 RMB'000
At beginning of year	322	322
Amount written off as uncollectible	(322)	–
At end of year	–	322

The individually impaired trade receivables related to customers that were in financial difficulties or in default in repayments and were not expected to be recovered. The Group did 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:

	2010 RMB'000	2009 RMB'000
Neither past due nor impaired	13,407	567
Less than 3 months past due	160	–
More than 3 months past due	–	1
	13,567	568

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.

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Note	Group 2010 RMB'000	Group 2009 RMB'000
NON-CURRENT			
Prepayments			
Prepayments for purchases of plant and equipment		**4,098**	6,515
CURRENT			
Prepayments			
Advanced deposits to suppliers		**71,535**	56,907
Current portion of prepaid land lease payments	16	**1,985**	1,569
Other prepayments		**437**	–
		73,957	58,476
Deposits and other receivables			
VAT receivable		**1,877**	31,609
Others		**5,584**	5,262
		7,461	36,871
Total prepayments, deposits and other receivables		**81,418**	95,347

	Company 2010 RMB'000	Company 2009 RMB'000
Prepayments and other receivables		
Prepayments	**437**	–
Other receivables	**109**	–
	546	–

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

22. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Time deposits	**18,780**	21,173	**–**	–
Less: Pledged time deposits for bills payable (note 25)	**(18,780)**	(21,173)	**–**	–
	–	–	**–**	–
Cash at banks and on hand	**162,773**	139,796	**836**	2,835
Cash and cash equivalents	**162,773**	139,796	**836**	2,835

At 31 December 2010, the cash and bank balances of the Group denominated in RMB amounted to RMB180,717,000 (2009: RMB158,133,000). 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 amount due to Henan Xinlianxin Chemicals Group Co., Ltd. ("Henan Chemicals") which bears interest at 5.4% (2009: 6.804%) per annum.

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

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	
	2010	2009
	RMB'000	RMB'000
Within 1 month	**3,223**	13,197
1 to 3 months	**34,696**	26,198
3 to 6 months	**688**	5,529
6 to 12 months	**239**	607
Over 12 months	**1,306**	1,904
	40,152	47,435

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

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 2010, bills payable were secured by time deposits of RMB18,780,000 (2009: RMB21,173,000) (note 22). Bills payable are denominated in RMB.

26. ACCRUALS AND OTHER PAYABLES

	Group	
	2010	2009
	RMB'000	RMB'000
NON-CURRENT		
Accruals		
Accruals for contracting charges and purchases of property, plant and equipment	**–**	65,035
CURRENT		
Accruals		
Accrued expenses	**18,489**	28,321
Accruals for contracting charges and purchases of property, plant and equipment	**57,016**	79,282
	75,505	107,603
Other payables		
Advance payments from customers	**181,257**	182,418
VAT and other operating tax payables	**660**	132
Tender deposits	**4,168**	3,416
Staff deposits	**210**	229
Others	**3,249**	5,702
	189,544	191,897
	265,049	299,500

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

27. DEFERRED GRANTS

	Group 2010 RMB'000	2009 RMB'000
Cost:		
At beginning of the year	**10,540**	9,740
Received during the year	**–**	800
Returned during the year	**(4,540)**	–
At end of year	**6,000**	10,540
Accumulated amortisation:		
At beginning of the year	**1,545**	–
Amortisation during the year	**495**	1,545
At end of year	**2,040**	1,545
Net carrying amount:		
Current	**3,960**	8,995

As at 31 December 2009 and 2010, deferred grants related to government grants given to the Group for installation and building of machinery to implement energy-saving production methods and to reduce production cost. During the year ended 31 December 2010, a government grant of RMB4,540,000 was returned to the government.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2010 Contractual interest rate	2010 Maturity	2010 RMB'000	2009 Contractual interest rate	2009 Maturity	2009 RMB'000
CURRENT						
Bank loans						
– secured (note (a))	**5.4%**	**2011**	**30,000**	–	–	–
– unsecured	**4.86% to 5.4%**	**2011**	**170,000**	4.86% to 5.4%	2010	110,000
			200,000			110,000
NON-CURRENT						
Bank loans						
– secured (note (a))	**5.4%**	**2012**	**90,000**	5.4%	2012	120,000
– unsecured	**5.4% to 5.85%**	**2012 to 2013**	**923,000**	5.4%	2011 to 2012	705,000
Loan from the government						
– unsecured (note (b))	**Floating rate at 0.3% above market prime lending rate**	**–**	**10,411**	Floating rate at 0.3% above market prime lending rate	–	10,152
			1,023,411			835,152
			1,223,411			945,152

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

	Group 2010 RMB'000	2009 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**200,000**	110,000
In the second year	**625,000**	585,000
In the third to fifth years, inclusive	**388,000**	240,000
	1,213,000	935,000
Other borrowings repayable:		
In the third to fifth years, inclusive	**10,411**	10,152
	1,223,411	945,152

Notes:

(a) Certain bank loans of the Group were guaranteed by independent third parties.

(b) The loan from the government bears interest at a floating rate of 0.3% above the market prime lending rate and is not due to be repaid within the next 12 months.

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

29. DEFERRED TAX LIABILITIES

Group

	Withholding tax RMB'000
At 1 January 2009	18,617
Deferred tax charged to profit or loss during the year (note 11)	8,215
At 31 December 2009 and at 1 January 2010	26,832
Deferred tax charged to profit or loss during the year (note 11)	8,239
At 31 December 2010	35,071

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	
	2010	2009	**2010**	2009
			RMB'000	RMB'000
Issued and fully paid	**1,000,000,000**	1,000,000,000	**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 2009 and 2010 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.

32. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Major non-cash transactions

(i) Purchases of property, plant and equipment

	2010	2009
	RMB'000	RMB'000
Additions to property, plant and equipment (note 15)	**288,860**	811,625
Less: Prepayments made in the prior year (note 21)	**(6,515)**	(277,882)
Less: Payable to creditors (note 26)	**(57,016)**	(144,317)
Less: Interest capitalised (note 8)	**–**	(5,000)
	225,329	384,426
Add: Prepayments made in the current year (note 21)	**4,098**	6,515
Add: Payments for the prior year purchases	**144,317**	98,692
	373,744	489,633

(ii) Interest capitalisation

In the prior year, 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:

	2010	2009
	RMB'000	RMB'000
Within one year	**3,083**	2,277
In the second to fifth years, inclusive	**11,513**	9,001
After five years	**83,203**	58,201
	97,799	69,479

The Company had no operating lease arrangements as at 31 December 2009 and 2010.

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:

	2010	2009
	RMB'000	RMB'000
Capital commitments		
Contracted, but not provided for:		
Buildings	**–**	137,615
Plant and machinery	**27,900**	170,763
	27,900	308,378
Authorised, but not contracted for:		
Buildings	**–**	–
Plant and machinery	**16,324**	16,052
	16,324	16,052
	44,224	324,430
Other commitments		
Purchases of raw materials	**–**	2,751

The Company had no material commitments as at 31 December 2009 and 2010.

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	2010 RMB'000	2009 RMB'000
Continuing transactions			
Sales of electricity, water and steam to:	(i)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		**1,005**	879
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		**4,092**	984
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		**6**	3
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		**242**	132
– Xinxiang Yuyuan Chemical Co., Ltd. #		**612**	553
– Xinxiang Xinlianxin Hotel Co., Ltd. #		**121**	49
Service fee income for provision of calibration and testing services to:	(ii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		**44**	33
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		**9**	1
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		**1**	–
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		**11**	9
– Xinxiang Yuyuan Chemical Co., Ltd. #		**46**	34
– Xinxiang Xinlianxin Hotel Co., Ltd. #		**1**	–
Purchases of raw materials and consumables from:	(iii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		**–**	2
– Xinxiang Xinlianxin Gas Products Co., Ltd. #		**287**	535
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		**–**	5,934
– Xinxiang Yuyuan Chemical Co., Ltd. #		**–**	3
Purchases of items of property, plant and equipment from:	(iv)		
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		**4,436**	–
Service fee expenses for provision of lifting services from:	(v)		
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.		**1,810**	1,799

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	2010 RMB'000	2009 RMB'000
Discontinued transactions			
Operating lease expenses to:	(vi)		
– Henan Chemicals		**480**	480
Management fee income from:	(vii)		
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd. #		**1**	1
– Xinxiang Yuyuan Chemical Co., Ltd. #		**1**	11
Service fee expenses to:	(viii)		
– Henan Shenzhou Heavy Sealing Co., Ltd. #		**–**	5
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd. #		**–**	574
– Xinxiang Xinlianxin Hotel Co., Ltd. #		**2,023**	2,104
Interest expense to:	(ix)		
– Henan Chemicals		**929**	2,735
Compensation expense to:	(x)		
– 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.

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:

(i) The sale of electricity was made according to the unit cost of electricity announced by the Henan Province Development and Reform Committee (河南省發展和改革委員會). The sales of water and steam were made according to a mark-up of 10% above cost.

(ii) The service fee income was received according to mutually agreed terms with reference to the actual costs incurred.

(iii) The purchases of raw materials and consumables were charged based on the published prices and conditions offered to third parties by the related parties.

(iv) The purchases of items of property, plant and equipment were charged based on the published prices and conditions offered to third parties by the related party.

(v) The service fee expenses for the provision of lifting services were charged based on mutually agreed terms with reference to the actual costs incurred.

(vi) The operating lease expenses for the year were charged at a fixed monthly amount of RMB40,000 (2009: RMB40,000).

(vii) The management fee income was received according to mutually agreed terms with reference to the actual costs incurred.

(viii) The services fee expenses were charged based on mutually agreed terms with reference to the actual costs incurred.

(ix) The interest expense was charged based on a fixed interest rate of 5.4% (2009: 6.804%) per annum on the balance due to the related company.

(x) 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 for the year ended 31 December 2009.

The related party transactions above constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

36. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2010 RMB'000	2009 RMB'000
Directors' fee	**800**	700
Salaries and bonuses	**4,187**	4,061
Contributions to defined contribution plans	**128**	114
	5,115	4,875
Comprise amounts paid to:		
– Directors of the Company	**3,140**	3,040
– Other key management personnel	**1,975**	1,835
	5,115	4,875

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

		Loans and receivables	
	Notes	2010 RMB'000	2009 RMB'000
Trade receivables	20	**13,567**	568
Bills receivable	20	**18,720**	40,708
Deposits and other receivables	21	**7,461**	36,871
Pledged deposits	22	**18,780**	21,173
Cash and cash equivalents	22	**162,773**	139,796
		221,301	239,116

		Available-for-sale financial assets	
	Note	2010 RMB'000	2009 RMB'000
Available-for-sale investment	17	**21,778**	–

37. FINANCIAL INSTRUMENTS BY CATEGORY (CONTINUED)

Financial liabilities

	Notes	Financial liabilities at amortised cost	
		2010	2009
		RMB'000	RMB'000
Due to related companies	23	**723**	1,517
Trade payables	24	**40,152**	47,435
Bills payable	25	**37,500**	41,346
Other payables	26	**189,544**	191,897
Interest-bearing bank and other borrowings	28	**1,223,411**	945,152
		1,491,330	1,227,347

Company

Financial assets

	Notes	Loans and receivables	
		2010	2009
		RMB'000	RMB'000
Due from a subsidiary		**53,851**	8,851
Other receivables	21	**109**	–
Cash and cash equivalents	22	**836**	2,835
		54,796	11,686

The Company had no financial liabilities as at 31 December 2010 and 2009.

38. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Trade receivables	**13,567**	568	**13,567**	568
Bills receivable	**18,720**	40,708	**18,720**	40,708
Deposits and other receivables	**7,461**	36,871	**7,461**	36,871
Pledged deposits	**18,780**	21,173	**18,780**	21,173
Cash and cash equivalents	**162,773**	139,796	**162,773**	139,796
Available-for-sale investment	**21,778**	–	**21,778**	–
	243,079	239,116	**243,079**	239,116
Financial liabilities				
Due to related companies	**723**	1,517	**723**	1,517
Trade payables	**40,152**	47,435	**40,152**	47,435
Bills payable	**37,500**	41,346	**37,500**	41,346
Other payables	**189,544**	191,897	**189,544**	191,897
Interest-bearing bank and other borrowings	**1,223,411**	945,152	**1,223,411**	945,152
	1,491,330	1,227,347	**1,491,330**	1,227,347

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Due from a subsidiary	**53,851**	8,851	**53,851**	8,851
Other receivables	**109**	–	**109**	–
Cash and cash equivalents	**836**	2,835	**836**	2,835
Available-for-sale investment	**21,778**	–	**21,778**	–
	76,574	11,686	**76,574**	11,686

The Company had no financial liabilities as at 31 December 2010 and 2009.

38. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, deposits and other receivables, other payables, deferred grants and amounts due to related companies approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair value of the interest-bearing bank and other borrowings has been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

The fair values of listed equity investments are determined by direct reference to their bid price quotation in an active market at the end of the reporting period.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

Group and Company
As at 31 December 2010

	Level 1 RMB'000
Available-for-sale investment	21,778

The Group and the Company had no financial assets measured at fair value as at 31 December 2009.

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2009: Nil).

Liabilities measured at fair value:

The Group and the Company had no financial liabilities measured at fair value as at 31 December 2010 and 2009.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the chief financial officer and finance manager.

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

(a) Credit risk

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

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

Exposure to credit risk

At the end of the reporting period, the Group's maximum exposure to credit risk is represented by the carrying amount of each class of financial assets recognised in the statement of financial position.

Credit risk concentration profile

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

	2010 RMB'000	**% of total**	2009 RMB'000	% of total
Urea	**1,201**	**9**	513	90
Compound fertiliser	**12,366**	**91**	55	10
Total	**13,567**	**100**	568	100

At 31 December 2009 and 2010, approximately 67% and 53% of the Group's trade receivables were due from its top 10 customers located in Mainland China, respectively.

39. 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 assets and financial liabilities at the end of the reporting period based on contractual undiscounted repayment obligation.

	1 year or less RMB'000	1 to 3 years RMB'000	3 to 5 years RMB'000	Total RMB'000
Group				
31 December 2010				
Due to related companies	**723**	**–**	**–**	**723**
Trade payables	**40,152**	**–**	**–**	**40,152**
Bills payable	**37,500**	**–**	**–**	**37,500**
Other payables	**189,544**	**–**	**–**	**189,544**
Interest-bearing bank and other borrowings	**201,732**	**1,110,191**	**21,174**	**1,333,097**
31 December 2009				
Due to related companies	1,517	–	–	1,517
Trade payables	47,435	–	–	47,435
Bills payable	41,346	–	–	41,346
Other payables	191,897	–	–	191,897
Interest-bearing bank and other borrowings	111,938	904,931	11,440	1,028,309

The Company had no financial liabilities as at 31 December 2010 and 2009.

(c) Interest rate risk

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

Sensitivity analysis for interest rate risk

Fair value sensitivity analysis for fixed rate instruments

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

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

(c) Interest rate risk (continued)

Sensitivity analysis for interest rate risk (continued)

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 to their fair values because these are mostly short-term in nature or are repriced frequently. For interest-bearing loans and borrowings, a change in interest rate at the reporting date would increase/(decrease) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

	Increase in basis points	**2010** **RMB'000**	2009 RMB'000
Interest expense			
RMB	10	**(1,000)**	(713)
Interest income			
RMB	10	**158**	138
SGD	10	**–**	1
United States dollars ("**USD**")	50	**1**	7

(d) Foreign currency risk

The Group holds cash and cash equivalents denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency balances (mainly in SGD, USD and Hong Kong dollars ("**HKD**")) are as follows:

	2010 **RMB'000**	2009 RMB'000
SGD	**194**	1,174
USD	**303**	1,614
HKD	**339**	–
	836	2,788

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

	2010 **RMB'000**	2009 RMB'000
SGD – strengthened 5% (2009: 5%)	**10**	59
– weakened 5% (2009: 5%)	**(10)**	(59)
USD – strengthened 2% (2009: 2%)	**6**	32
– weakened 2% (2009: 2%)	**(6)**	(32)
HKD – strengthened 1% (2009: 1%)	**3**	–
– weakened 1% (2009: 1%)	**(3)**	–

40. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is 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 2009 and 2010.

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 the years ended 31 December 2009 and 2010.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Group's policy is to keep the gearing ratio below 90%.

	2010	2009
	RMB'000	RMB'000
Due to related companies	**723**	1,517
Trade payables	**40,152**	47,435
Bills payable	**37,500**	41,346
Accruals and other payables	**265,049**	364,535
Interest-bearing bank and other borrowings	**1,223,411**	945,152
Less: Cash and cash equivalents	**(162,773)**	(139,796)
Less: Pledged deposits	**(18,780)**	(21,173)
Net debt	**1,385,282**	1,239,016
Shareholders' equity	**1,589,490**	1,474,643
Less: Statutory reserve fund	**(110,678)**	(94,200)
Total capital	**1,478,812**	1,380,443
Capital and net debt	**2,864,094**	2,619,459
Gearing ratio	**48.4%**	47.3%

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

41. RECONCILIATION BETWEEN SFRSs AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

For the years ended 31 December 2010 and 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 2010 and 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 2010					
Total equity under SFRSs		**836,671**	**110,678**	**642,141**	**1,589,490**
Share issue expenses	(i)	**44,453**	**–**	**(44,453)**	**–**
Total equity under IFRSs		**881,124**	**110,678**	**597,688**	**1,589,490**
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 profit or loss, respectively.

As the difference is brought forward from the listing of shares in 2009, there is no difference between SFRSs and IFRSs thereafter.

42. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 February 2011.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and assets and liabilities of the Group for the last four financial years, and the pro forma consolidated results and assets and liabilities of the Group are set out below.

	Year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**2,851,403**	2,329,607	2,084,943	1,541,422	890,175
Cost of sales	**(2,487,342)**	(2,014,212)	(1,603,073)	(1,125,001)	(678,607)
Gross profit	**364,061**	315,395	481,870	416,421	211,568
Other income and gains	**16,664**	11,661	13,664	31,761	13,495
Selling and distribution costs	**(38,686)**	(16,902)	(20,722)	(20,166)	(9,712)
General and administrative expenses	**(104,150)**	(110,536)	(91,290)	(76,635)	(41,487)
Other expenses	**(8,461)**	(11,587)	(6,963)	(64,343)	–
Finance costs	**(53,447)**	(36,522)	(26,791)	(18,062)	(21,447)
PROFIT BEFORE TAX	**175,981**	151,509	349,768	268,976	152,417
Income tax expense	**(31,410)**	(32,285)	(18,094)	(1,417)	(23,333)
PROFIT FOR THE YEAR	**144,571**	119,224	331,674	267,559	129,084
ASSETS AND LIABILITIES					
TOTAL ASSETS	**3,195,356**	2,910,557	2,481,904	1,832,474	579,050
TOTAL LIABILITIES	**(1,605,866)**	(1,435,914)	(1,030,998)	(661,581)	(512,386)
	1,589,490	1,474,643	1,450,906	1,170,893	66,664

STATISTICS OF SHAREHOLDINGS

ANALYSIS OF SHAREHOLDINGS AS AT 3 MARCH 2011

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

DISTRIBUTION OF SHAREHOLDINGS AS AT 3 MARCH 2011

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 – 999	8	0.15	2,114	0.00
1,000 – 10,000	2,971	57.10	19,646,786	1.96
10,001 – 1,000,000	2,205	42.38	96,499,391	9.65
1,000,001 and above	19	0.37	883,851,709	88.39
Total	5,203	100.00	1,000,000,000	100.00

LIST OF 20 LARGEST SHAREHOLDERS AS AT 3 MARCH 2011

No.	Name	No. of Shares	%
1	HKSCC NOMINEES LIMITED	714,624,000	71.46
2	BIG DAY LIMITED	49,900,000	4.99
3	DBS NOMINEES PTE LTD	25,117,683	2.51
4	AMFRASER SECURITIES PTE. LTD.	24,329,000	2.43
5	DBSN SERVICES PTE LTD	18,406,130	1.84
6	HSBC (SINGAPORE) NOMS PTE LTD	17,856,866	1.79
7	CITIBANK NOMS S'PORE PTE LTD	5,073,073	0.51
8	UNITED OVERSEAS BANK NOMINEES	4,252,000	0.43
9	UOB KAY HIAN PTE LTD	3,317,000	0.33
10	PHILLIP SECURITIES PTE LTD	3,148,000	0.31
11	OCBC SECURITIES PRIVATE LTD	3,012,019	0.30
12	KIM ENG SECURITIES PTE. LTD.	2,935,938	0.29
13	RAFFLES NOMINEES (PTE) LTD	2,853,000	0.29
14	DBS VICKERS SECS (S) PTE LTD	2,078,000	0.21
15	CIMB SEC (S'PORE) PTE LTD	1,827,000	0.18
16	MAYBAN NOMINEES (S) PTE LTD	1,590,000	0.16
17	OCBC NOMINEES SINGAPORE	1,354,000	0.14
18	HONG LEONG FINANCE NOMINEES PL	1,129,000	0.11
19	LIM & TAN SECURITIES PTE LTD	1,049,000	0.10
20	CHIN KIM YON OR KANG LAY HOON	1,000,000	0.10
	TOTAL	884,851,709	88.48

SUBSTANTIAL SHAREHOLDERS AS SHOWN IN THE REGISTER OF SUBSTANTIAL SHAREHOLDERS AS AT 3 MARCH 2011

	Direct Interest		Deemed Interest	
	No. of		No. of	
Name	shares	%	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 on trust by Mr. Liu Xingxu for the beneficiaries under a trust arrangement dated 26 July 2006. The beneficiaries under the trust arrangement 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. The shareholdings of Pioneer Top are held through the nominee, HKSCC Nominees Limited.

** 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 arrangement dated 26 July 2006 and a trust confirmation dated 16 June 2009. The beneficiaries under the trust arrangement and the trust confirmation comprise a total of 1,463 current and past employees and certain past and present customers/suppliers of the Group. 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. The shareholdings of Go Power are held through the nominee, HKSCC Nominees Limited.

PERCENTAGE OF SHAREHOLDINGS IN PUBLIC HANDS

As at 3 March 2011, approximately 37.56% of the Company's shares are held in the hands of the public. Accordingly, the Company has complied with the 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.

INFORMATION FOR INVESTORS

ANNUAL RESULTS ANNOUNCEMENT

25 February 2011

ANNUAL GENERAL MEETING

26 April 2011

RECORD DATE FOR FINAL DIVIDEND

11 May 2011

BOOK CLOSURE DATE

12 May 2011

DIVIDEND PAYOUT DATE

27 May 2011

PRINCIPAL SHARE REGISTRAR IN SINGAPORE

KCK Corpserve Pte. Ltd.
333 North Bridge Road
#08-00 KH KEA Building
Singapore 188721

BRANCH SHARE REGISTRAR IN HONG KONG

Tricor Investor Services Limited
26/F, Tesbury Centre
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: CXLX.SI; 1866.HK

INVESTOR RELATIONS

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Henan Province of the PRC
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Design and Production : Toppan Vite Limited

心连心

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

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