China XLX Fertiliser Ltd.
中國心連心化肥有限公司*
(Incorporated in Singapore with limited liability)

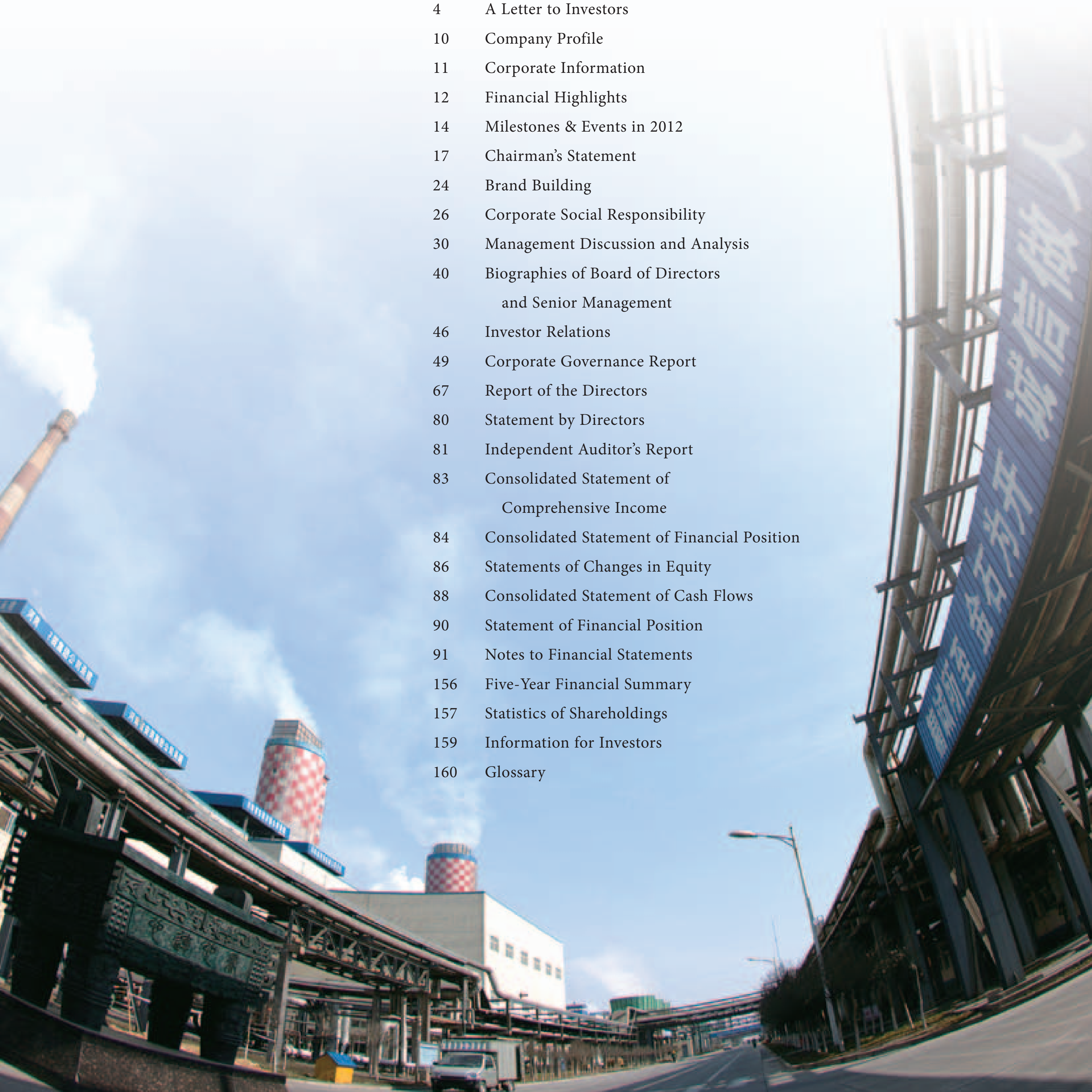
Pioneer of high-efficiency fertilisers in China

Annual Report
2012

Singapore Stock Code: B9R
Hong Kong Stock Code: 1866

* For identification purpose only

Contents



China XLX Culture

We attribute our achievements and breakthroughs to our dedicated team at China XLX. The team is committed to uphold the vision with integrity, discipline and strong commitment.

Integrity

China XLX establishes its corporate culture upon integrity.

Establishing strong relationships, based on trust and integrity, is how we believe a strong and long standing corporation will be built.

Discipline

A consistent and high level of safety consciousness, our only guarantee for continual productivity.

A round the clock chemical production process, a strong physique is not all it takes. To ensure safety in operation, it is also imperative to be highly disciplined, efficient and alert.

Committed

Our dedicated team places strong emphasis on innovation and self-initiative.

With approximately 30% of China XLX's total issued shares held by almost 50% of our employees, the team makes it their priority to be innovative, improve efficiency, contribute to cost savings, so as to achieve higher profits for the Company.

Vision

Our common goal for the next 100 years starts here.

Our people are united across all levels of management and staff. We have our sights set on the future, boosting production capacity, developing new products, breaking into new markets and integrating our industry value chain. This can ensure the sustainability and steady growth of our business.

A Letter to Investors

Looking ahead 2013, the senior management and all the employees of the Group will continue to work collaboratively and sincerely with guidance from the Board. We will carry forward the construction of the fourth production plant and the production base located at Xinjiang, as well as to consolidate the upstream coal resources. By taking the advantages of being cost-effective, we will endeavor to achieve better performance so as to create more value for the Shareholders.

Dear Valued Investors,

During 2012, with concerted efforts made by the management and staff as a whole, China XLX again reported distinguished business results. Backed by favourable conditions of higher selling prices of urea and compound fertiliser and tumbling coal price, China XLX recorded a 7% growth in sales revenue and our net profits soared by 72% as compared with the previous year, hitting a new record high since our listing in Hong Kong. Considering both shareholders' benefits and return, the Board declared a final dividend of RMB0.063 per share for the financial year ended 31 December 2012, representing a year-on-year increase of 70%. At the same time, the Company's gross profit margin on urea recovered to 23%, while the overall gross profit margin rose to 18%.

During the year under review, the whole urea industry continued its recovery and consolidation backed by strong support from government policies. The price of urea at end-user market managed to maintain a year-on-year growth due to remarkably higher exports and steady demand from downstream. Accordingly, the Company's business environment in the year under review was noticeably improved in comparison with that around 2011.

In 2012, we had some encouraging new developments regarding raw materials purchase, production and operation, construction of sales channels, brand-building and so on:

- Henan XLX Fertiliser entered into a three-year sale agreement with 山西亞美大寧能源有限公司 Shanxi Asian American-Daning Energy Co., Ltd, to guarantee anthracite coal supply to its production base in Henan Province;
- Henan XLX Fertiliser entered into a binding gas supply framework agreement with Air Products and Chemicals (China) Investments Co., Ltd. (空氣化工產品(中國)投資有限公司) ("AP China"), pursuant to which AP China invested approximately RMB500 million in the construction of an air separation unit to supply industrial gas to the Group's fourth production plant, thus enhancing the operation efficiency and lowering the Company's investment costs and production costs;
- Henan XLX Fertiliser co-operated with Sinoagric Chain Co., Ltd. ("Sinoagric Chain") in setting up a joint venture for production and selling slow release compound fertiliser;
- Henan XLX Fertiliser launched a strategic cooperation with Anhui Huilong Group RMF Agrochemical Co., Ltd., the largest agro-products distributing enterprise in Anhui Province, to increase market share;
- Henan XLX Fertiliser was bestowed the title of New/High Tech Enterprise as a recognition for preferential tax treatment in 2011 to 2013, enjoying a tax benefit of paying just 15% corporate tax rates;
- Henan XLX Fertiliser was conferred the title of "Ammonia Energy Consumption Leader" by the Ministry of Industry and Information Technology and the China Petroleum and Chemical Industry Federation;

- The Group has launched a new brand-building strategy to position itself as the "Pioneer of High-efficiency Fertilisers in China", and appointed Mr. Tang Guo Qiang, an actor who played the role of Mao Zedong in a film, as the image representative to extensively promote a new brand image and increase the brand influence.

At the same time, we continued to boost production capacity. The construction of the Group's fourth production plant, which is located at the Northern and Eastern Side of Qinglong Road, Xinxiang Economic and Development Zone, Xinxiang City, Henan Province, proceeded on schedule. Major equipment were installed by the end of 2012 and part of the production section and equipment have undergone the preliminary commissioning and testing, so as to guarantee a successful trial production getting commence in the third quarter of 2013. The construction of the infrastructure works of the fifth production plant, which is located at Manas, Xinjiang region, was basically completed and construction of the rest of the project will continue in the second quarter of 2013 when warmer weather allows. With a production capacity of 800,000 tons per year, the fourth production plant will boost the Group's total production capacity to approximately 2.1 million tons upon its commencement of production in 2013. With a production capacity of 520,000 tons per year, the fifth production plant will help the Group's total production capacity surpass 2.6 million tons upon its commencement of production in 2016, doubling the capacity at present. Such newly built production capacity not only enlarges the scale of the Group, but also effectively promotes its technological level, which can reduce the Group's production costs further and boost its competitive edge in the market. We strongly believe that in 2016, the Group will become one of the most competitive urea producers in China.

Being one of the largest listed private enterprises in the chemical fertiliser industry in the PRC with the highest percentage of shareholding by employees, we set our objective far beyond becoming the largest fertiliser manufacturer. Rather, we aspire to be both the most profitable coal-based urea manufacturer in the fertiliser industry and the most influential, competitive and respected coal chemical enterprise group in China. We sincerely hope that our customers, including our business partners, the government, peers at the trade, the media and the public, will find us reliable and make China XLX as their first choice.

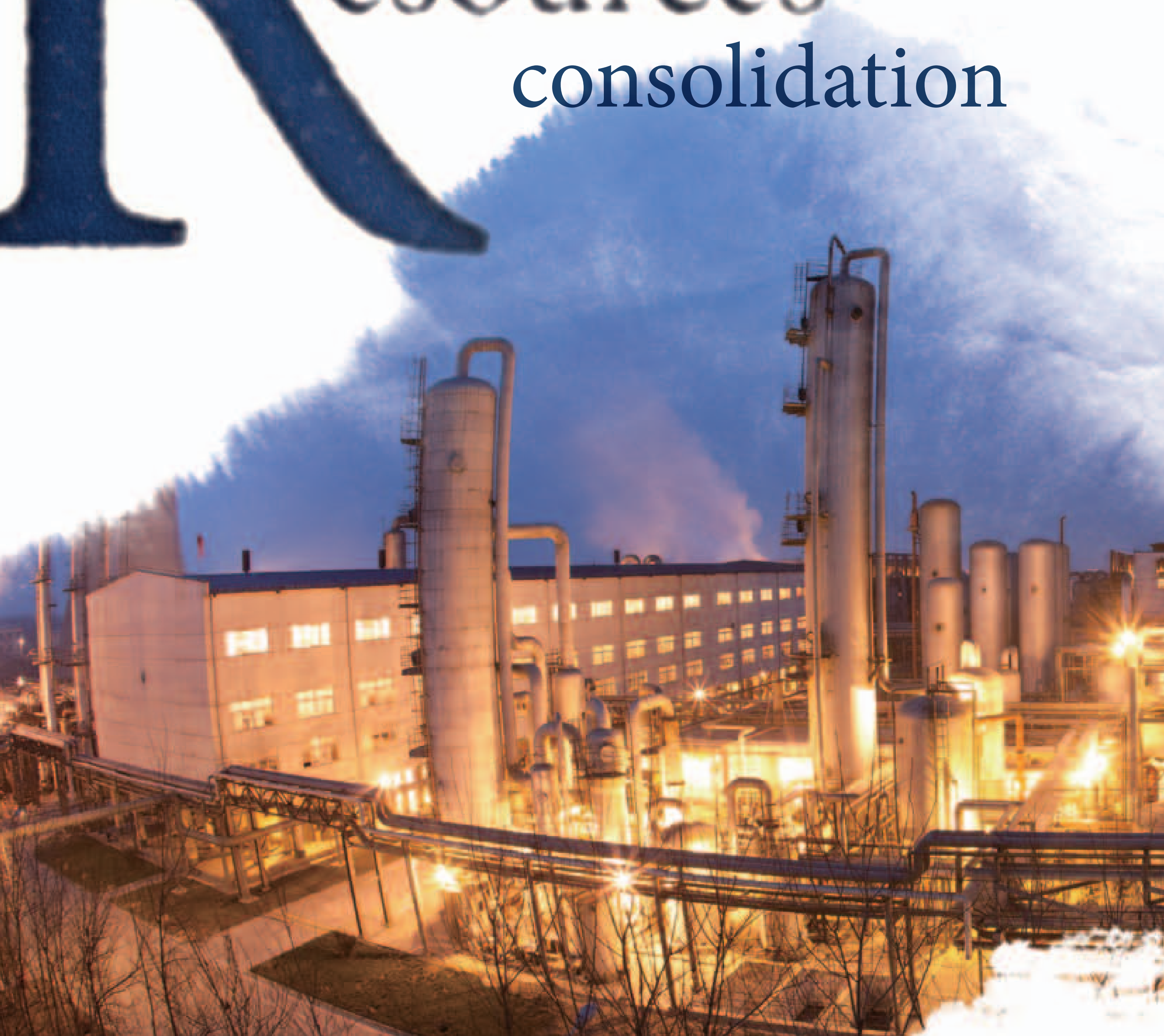
In the annual report of 2012, the section "Investor Relations" shows the Board and the management of the Company lay great emphasis on maintaining investor relations and work conscientiously on interaction and exchange with investors and promote information transparency. In addition, we would like you to read the section "Corporate Social Responsibility" in order to know more about the Group's commitments and achievements on social welfare, circular economy and environmental sustainability.

Looking ahead to the next three to five years, we expect that China XLX will grow rapidly. At the same time, the fertiliser industry will also benefit from the country's more inputs in the three rural issues. The emergence of intensified agricultural production mode, like family farm, will give an edge to large fertiliser enterprises which are large in scale with low production costs, providing comprehensive after-sales services and high quality products and having a good brand reputation. In addition, Henan Province, where we are situated, is going to experience a more rapid and remarkable growth with the development of the Central Plains Economic Zone. As the biggest fertiliser manufacturer in the zone, we believe that the Company's business growth will become more apparent, and is expecting to yield more investment returns for investors. It is envisaged that in three years' time, after the construction of the two fertiliser production bases with a total asset value of approximately RMB8 billion in Henan and Xinjiang are basically completed, the Group will be realising its transformation in strategy, scale and management mode.

The Company devotes itself not only to be a leader in cost efficiency, but also a leader in market status, a leader in technology of the industry and the best performer in commanding market resources capacity. Positioning itself as a "leader" and the "Pioneer of High-efficiency Fertilisers in China", the Company will proactively shoulder more corporate responsibility in leading the industry, rewarding farmers and serving the community, all of which will be committed to an even higher standard for peers to follow. The Company will continue to consolidate the upstream coal resources and invent new products, while ensure successful commencement of the production of the fourth production plant, enhance costs control and operation efficiency and manage the Company's liquidity risk. By stepping up the cooperation with giants in the industry at home and abroad and leveraging the platform of capital market, we can promote the Company's new brand image as the "Pioneer of High-efficiency Fertilisers in China" in the vast domestic market. By doing so, a bright future is right ahead of us.

LIU Xingxu
Chairman of the Board
25 February 2013

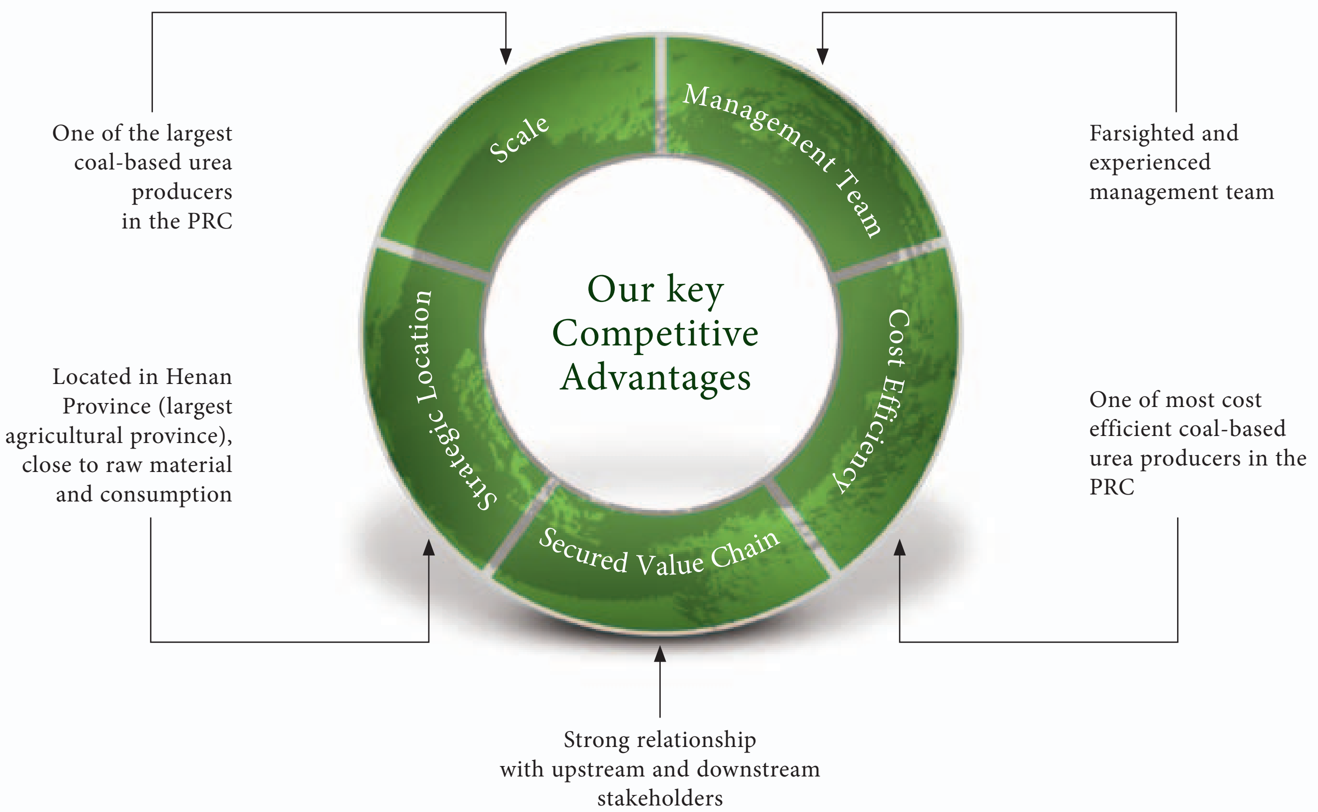
Resources consolidation



Being one of the most cost-efficient and largest coal-based urea manufacturers in the PRC, our Group will be dedicated to construct a "Green China" by leveraging cost effectiveness.

Company Profile

China XLX was incorporated with limited liability on 17 July 2006 in Singapore under the Companies Act of Singapore, with its registered office at 80 Robinson Road, #02-00, Singapore 068898. The Group's headquarter and principal place of business in China is located in Xinxiang High Technology Development Zone (Xiaoji Town), Henan Province. In terms of capacity and efficiency, the Group is now one of the largest and most cost-efficient coal-based urea producers in the PRC, aiming to become one of the most profitable coal-based urea producers. The principal activities of its subsidiary, namely Henan XLX Fertiliser, 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 1.25 million tons, 750,000 tons and 200,000 tons, respectively. The Group is currently building the fourth production plant in Xinxiang, Henan Province, which is expected to be completed and commence production in 2013. The new plant will bring the Group's total production capacity of urea to over 2 million tons. At the same time, the Group is building the fifth production plant in Manas, Xinjiang which is scheduled to be completed and commence production in 2016. From then onward, our annual production capacity will exceed 2.6 million tons. At present, urea is the Group's major product, contributing approximately 63% of the total revenue in 2012. China XLX has been listed on the Singapore Exchange since June 2007 with stock code "B9R", and on the Hong Kong Stock Exchange since December 2009 with stock code "1866".



Corporate Information

Board

Executive Directors

LIU Xingxu (Chairman of the Board & Chief Executive Officer)
YAN Yunhua (Chief Financial Officer)
LI Buwen

Non-executive Director

LIAN Jie

Independent Non-executive Directors

ONG Kian Guan (Lead Independent Non-executive Director)
LI Shengxiao
ONG Wei Jin

Board Committees

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
ONG Kian Guan
(appointed with effect from 26 February 2013)

Authorised Representatives under Listing Rules

YAN Yunhua
SOON Yuk Tai (appointed with effect from 1 September 2012)

Authorised Representatives under Listing Manual

YAN Yunhua
TEO Meng Keong
(both appointed with effect from 1 September 2012)

Joint Company Secretaries

SOON Yuk Tai
TEO Meng Keong
(both appointed with effect from 1 September 2012)

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

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
China CITIC Bank
HSBC
Standard Chartered Bank

Registered Office

80 Robinson Road
#02-00, Singapore 068898

Headquarters and Principal Place of Business in PRC

Xinxiang High Technology Development Zone
Henan Province, PRC 453731

Principal Place of Business in Hong Kong

20th Floor, Alexandra House
18 Chater Road, Hong Kong

Stock Codes

Singapore Stock Code: B9R
Hong Kong Stock Code: 1866

Corporate Website

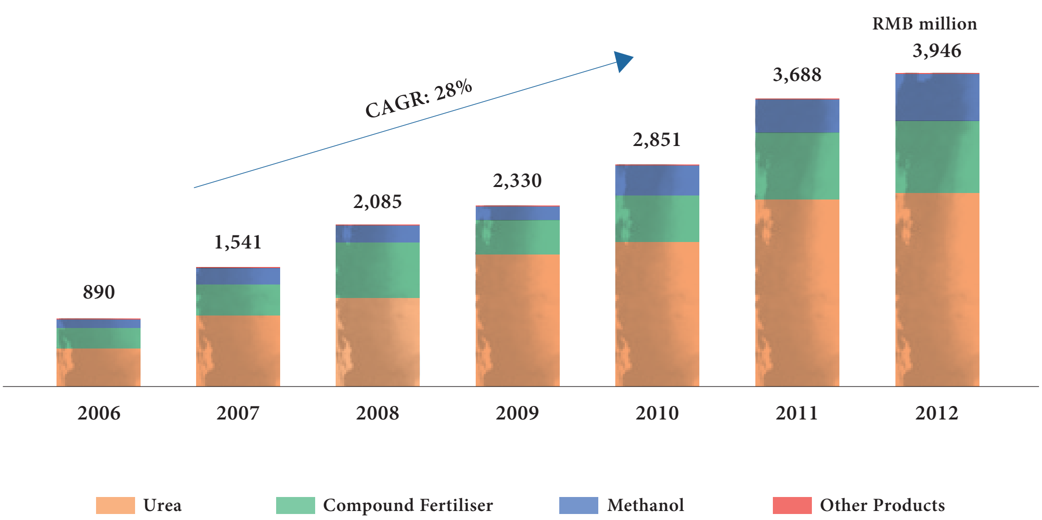
http://www.chinaxlx.com.hk

Financial Highlights

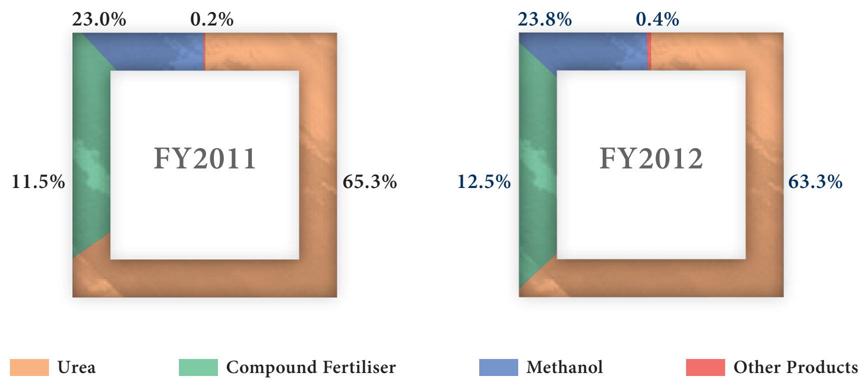
Overall financial results of 2012

(RMB million)	2011	2012	Change YoY (%)
Revenue	3,688	3,946	7
Cost of sales	(3,182)	(3,226)	1
Gross profit	506	720	42
Profit before tax	225	372	65
Income tax expense	(44)	(61)	38
Profit after tax	181	311	72
Basic and diluted earnings per share (RMB cents)	17.96	26.46	47
Shareholders' equity per share (RMB)	2.06	2.32	13
Dividend per share (RMB cents)	3.70	6.30	70
Gearing ratio (%)	44.4	50.8	6.4ppt

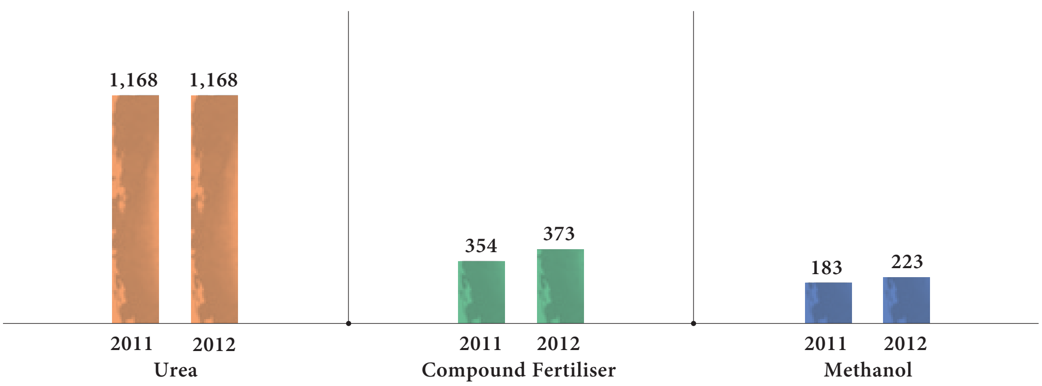
Total revenue continued to grow steadily



Revenue breakdown by segment



Sales volume breakdown by segment ('000 tons)



Milestones & Events in 2012

Honors Received in 2012:

1. New/High Tech Enterprise
2. The Most Energy Efficient Producer
3. Mayor's Quality Award

January
2011 Marketing Summit

February
Cooperated with Xinjiang Double Dragons Humic Acid Co., Ltd. on the humic acid urea project

March
- Duly signed a long-term cooperation agreement with AP China
- Established a joint venture with Sinoagric Chain for the production and sale of slow release compound fertiliser

April
- Named as "New/High Tech Enterprise"
- New compound fertiliser production line with capacity of 150,000 tons commerced operation

May
- Successfully issued short-term bond of RMB300 million
- Entered into a 3-year long-term strategic cooperation agreement with Shanxi Asian American-Daning Energy Co., Ltd.
- Signed a strategic cooperation agreement with Anhui Huilong Group RMF Agrochemical Co., Ltd.

June
- Rated as China's *Most Energy Efficient Coal-based Synthetic Ammonia Producer* jointly by the Ministry of Industry and Information Technology and the China Petroleum and Chemical Industry Federation

4. Top 50 among the State's nitrogen fertiliser industry for 2011
5. The State's Advanced Energy Saving Enterprise in nitrogen fertiliser industry and methanol industry for 2011
6. China's Top 100 Agrichemical Service Enterprise for 2012
7. The Quality Benchmark Enterprise for 2012

July

Entered into a strategic cooperation agreement with Henan Haofeng Company and Henan Qiule Seed Industry Science and Technology Co., Ltd. for joint development of "fertilisation at sowing" operations

August

- Winner of 5 awards in the 26th International Annual Report Competition (ARC Awards) in 2011, which included the Grand Award in "Best of Traditional Annual Reports" and a Gold Award, a Silver Award, a Bronze Award and an Honor Award
- Henan XLX Fertiliser signed a comprehensive strategic cooperation agreement with CCB Henan Branch

September

The Supervisory Group of Safe Production Commission under the State Council conducted inspection towards China XLX

October

- Granted the "Mayor's Quality Award 2012"
- Named as "China's Top 100 Agrichemical Service Enterprise for 2012"

November

- Named as the "Quality Benchmark Enterprise for 2012"
- Held a press conference on XLX's new brand strategy and 2013 Marketing Summit

December

- The Company successfully submitted an application for the "Model Industrial Enterprise for Construction of Resources Management Centre 2012"

During 2012, with concerted efforts made by all staff, the Group again reported distinguished and encouraging business results. Looking forward, the Group will strengthen the process of brand-building and enhance the operation efficiency, so as to generate better returns for the Shareholders.

Liu Xingxu
The Chairman of the Board

Dear Shareholders,

On behalf of the Board, I am pleased to present the audited financial statements of the Group for the financial year ended 31 December 2012 to the Shareholders.

Final Results

Achieving Stable Profits and Revenue Growth

In 2012, the revenue of the Group was RMB3.95 billion, representing a year-on-year growth of 7%. Net profits increased from RMB181 million in 2011 to RMB310 million in 2012, representing a year-on-year growth of 72%. This represents a compound annual growth rate of approximately 28% for the previous seven years from the establishment of the Company in 2006.

Dividends and Dividend payout ratio

The Board proposed the payment of a final dividend of RMB0.063 per share for the year ended 2012 (2011: RMB0.037) on 27 May 2013 to Shareholders whose names appear on the Company's Register of Members on 10 May 2013. The dividend payout ratio was 20% of the after-tax profit. At the time of its listing on the Singapore Exchange 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 has honored its promise. After the conclusion of the undertaking period, the dividend payout ratio was still maintained at over 20%.

Production and Operating Conditions

Production and Operation Remained Stable

In 2012, the Group's third production plant ceased production for maintenance in the second quarter and the second production plant underwent a major repair in the fourth quarter (generally, cease production for maintenance takes 23 days while normal maintenance takes about 10 days). Under such circumstances, the Group endeavoured to enhance operation efficiency through technological reform and successfully secured an annual urea production capacity of over 1,310,000 tons. The overall utilisation rate of production facilities still achieved 105%. This was mainly attributable to the prolonged decrease in the price of the raw material coal in 2012 which helped relieved the Group's cost pressure from the upstream tremendously. Driven by highly improved gross profit margin, the capacity utilisation rate of methanol stood at 112%.

Urea

The demand of compound fertiliser increased and the international price of urea soared in the first half of the year, which drove the average selling price of urea up to RMB2,450 in the second quarter of 2012. Even though the off-season window period started in the second half of the year, the annual export of urea still hit the second record high of 6,950,000 tons in history (only second to the 7,020,000 tons recorded in 2008), representing a growth nearly doubled that of the previous year. Besides, the demand for agricultural urea maintained a steady growth and the minimum purchase price for major crops in the homeland raised twice in 2012. All these factors combined, even under the backdrop of continuous decrease in the coal price for the whole of 2012, contribute to the rise of the average urea sales price, which was mainly driven by demand, by 4% as compared with 2011. The Group's gross profit margin of urea increased to 23% in 2012 from 17% in 2011.

Compound Fertiliser

A slight decrease in the gross profit margin of compound fertiliser was recorded for the year, declining from 15% in 2011 to 14% in 2012. This was mainly due to the average sales cost increased by 6.5% while the average sales price increased only by 4.8%. The new compound fertiliser production line (with an annual production capacity of 150,000 tons) commenced production in the second quarter of 2012 and boosted the actual sales volume up by 5.3%.

Methanol

The gross profit margin of methanol increased significantly from -6% in 2011 to 4% in 2012. This was mainly benefited from the sustained low price of the raw material coal.

Development Strategies

Business development will be centered on "coal chemical" products. We will continue to focus on our core business of urea so as to grow it up to the highest standards of the industry while maintaining cost-effectiveness, and we will eventually expand into the coal chemical chain with the development of the advanced coal gasification technology.

1. **Growing our core business and adding to its strength with technical upgrade:** we are to expand our production capacity to approximately 2 million tons of urea, 1 million tons of compound fertiliser and 200 thousand tons of methanol, and selectively work on the "Low-carbon Economy" projects related to our products after we get the advanced gasification technology, whereby products with CO_2, CO and H_2 as raw materials will be preferred. On the other hand, we will also extend our existing product chain.

2. **Building specialised chemical fertiliser series:** under the strategic vision to achieve "differentiation", we will explore opportunities in the controlled-release fertiliser, organic fertiliser and phosphate fertiliser business based on market demand.

3. **Proceed with vertical and horizontal integration so as to extend the industrial chain:** under the guidance of scientific thinking, we are going to leverage advanced technology, expand upstream for resource supply by keeping our controlling interests in coal resource and phosphate resource businesses. We are stepping up our efforts on resource integration according to our strategy of cost-effectiveness.

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 2012 to review and approve matters including the quarterly results, interim report, annual report, dividend payout ratio, connected transactions and the developmental strategies of the Group. The AC, the RC and the NC 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. In 2012, the Group continued to engage PricewaterhouseCoopers to conduct internal audit for the Group. The purpose is to enhance internal risk control over the eight areas, namely fixed assets, capital management, financial report, information system, purchasing, sales, inventory and security of funds and operation efficiency.

Investor Relations

The Group highly values its relationship with its investors and aims to provide the latest information on the Group's operations and business development to its Shareholders and potential investors, so that they can obtain all necessary information in a timely manner and to make informed investment decisions. We communicate with our investors through different channels. For instance, our management holds one-on-one meetings with institutional investors, attends luncheons and takes part in large investor conferences regularly. As for annual report, after the Company's 2010 Annual Report had won three awards in the 25th International ARC Awards in 2011, the 2011 Annual Report also achieved a breakthrough by winning five awards in the 26th International ARC Awards in 2012, including the Grand Award of "Best of Traditional Annual Reports", the Gold Award, the Silver Award, the Bronze Award and the Honors Award. You can refer to the newly added column in this Annual Report under "Investor relations" section for more details.

Prospects

I am confident that the Group will continue to perform well in 2013. My confidence comes from several aspects as below:

More Supportive Policies from the Central Government

- The Central Government has, since 2004, issued the Number 1 Document of the Central Government for consecutive ten years offering working guidance for "Agriculture, Farmers and Rural Areas". The No. 1 policy document issued by the Central Committee for 2013 focused on the agricultural land reform, promoting family farms and encouraging professional operation in rural areas. It is expected that the measures will be beneficial to large scale fertiliser corporations which are sizable, running at low cost, offering good after-sales service, excellent product quality and reputable brands;

- In October 2011, the State Council issued the Guidance on Supporting and Accelerating the Construction of the Central Plains Economic Zone in Henan Province《國務院關於支持河南省加快建設中原經濟區的指導意見》which clearly pointed out the strategic goal of making Henan Province and its surrounding areas into an important base for crops production and modern agriculture in China. Furthermore, in November 2012, after the conclusion of the 18th session of the National People's Congress, the State Council officially approved the "Central Plains Economic Zone Planning (中原經濟區規劃), pursuant to which Henan Province, being the core of the central plain economic zone, will be the most important place to implement the planning and undertake the key mission of crop production in the nation;

- As of the date of this report, subsidies for the fertiliser industry have not been completely withdrawn and the government continues to provide subsidies on VAT, electricity costs as well as rail freight rates;

- The minimum purchase prices of major crops are expected to edge up. In January 2013, the National Development and Reform Commission ("NDRC") announced again there were hikes in the minimum purchase prices of major crops by an average of over 8%, which further provides incentives for farmers to grow crops;

- By the end of 2012, the Chinese government promulgated significant changes in export tax policy regarding urea, effective from 1 January 2013. The standard tariff for urea export during off-season was adjusted downward from 7% to 2% and the tax rate during peak season was adjusted downward from 110% to 77%. Pursuant to Ministry of Finance of PRC, the standard export price for urea has been increased from RMB2,100 to RMB2,260. This will stimulate export and relieve pressure of excess production capacity and the suppressed urea price in China.

We believe that the above favorable government policies for farmers will promote sustained and sound development in agriculture and the fertiliser industry. As the largest fertiliser company in Henan Province and the central plains, we will benefit from those policies.

Corporate Expansion with Improved Cost Efficiency

2013 will mark an important milestone for the Company in the course of its development. This year will see the use of the new technology of "gasification of coal powder" by us, and the fourth production plant of urea (with annual production capacity of 800,000 tons) will be completed and commence production in the third quarter. In terms of scale, the Group's annual production capacity of urea will increase by 64%, which means a jump to over 2,000,000 tons, and becomes one of the largest urea production installation in China. In terms of technology, the new raw material line and production technique adopted will reduce the Group's production cost effectively, thus laying a solid foundation for the Group to maintain itself as the cost leader in the industry. In terms of management, a new set of requirements was given to the operation team. Through its excellent management and innovation, the Group strives to increase its management and operation efficiency so as to ensure the new production line can be operated steadily at low cost for long.

New Product Development and Strategic Cooperation

As for the research and development of new products, the Group will continue to strengthen its cooperation with the Chinese Academy of Sciences to develop slow release urea; and cooperate with Sinoagric Chain (華農農資) for the development of slow release compound fertiliser. Currently, the Group has made a breakthrough in the key technique for production of slow release urea. As a result, the technological content of the product is greatly enhanced, the utilisation rate of nitrogen fertilisers has increased by over 20%, the rate for the release of urea has reduced by over 50% and the loss of nitrogen fertilisers has decreased by over 30%. All of these have achieved the aims of environmental protection, increasing farmers' income, decreasing number of agricultural workers, reducing environmental pollution and so on.

The Group will continue to cooperate with the largest seeds company and the largest agricultural machinery company in Henan Province and carry forward the project of "fertilisation at sowing" (種肥同播).

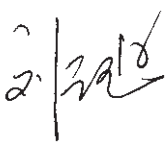
Optimising Sales Network and Strengthening Brand Promotion

The Group will strengthen its brand promotion and make full use of the influence of Mr. Tang Guoqiang on the rural area market to promote the brand of XLX. Besides, it will strengthen the sales network in Henan Province, carry out sales by offering solutions, and it will also establish market bases outside the province so as to enhance its distribution capability. Apart from strengthening the cooperation with its third largest Shareholder, Sinofert, it will also strengthen the cooperation with large dealers such as Sinoagric Chain (華農農資), Zhongnong (中農), Anhui Huilong (安徽徽隆), etc. to expand its sales channels. Besides, we also plan to develop e-commerce platform and bring in every dealer to the terminal of the e-commerce platform so that they can place orders through the network. We endeavour to expand the sales scale of each sales terminal. As such, it can be ensured that no pressure will be brought from growth in sales after the commencement of the fourth production plant of urea.

The Group is located at Henan, a province that boasts of being China's most populous, largest agricultural production and highest urea consumption area. Henan has a distinctive geographical advantage. As the largest fertiliser enterprise in Henan, China XLX will strive to expand its local market share (currently at approximately 16%). With the establishment and commencement of its fourth production plant of urea, the Company is confident that the Group's market share will be increased. Leveraging on the excellent team at the fertiliser service centre (農化服務中心) in Henan Province and the central plain area and strong brand promotion, we can achieve our sales target and realise our goal in profit growth.

Appreciation

Last but not the least, on behalf of the Board, I would like to take this opportunity to extend my heartfelt gratitude to all Shareholders, the Group's management team, all the staff, customers and friends that have been caring for and supporting us all along. In 2013, the Group's management and staff will work cohesively under the leadership of the Board to complete the construction of the fourth production plant of urea and guarantee its success in testing and commencement. Besides, we will also continue to complete the consolidation and reform of upstream coal resources in Xinjiang, maintain cost effectiveness to meet the rapid development stage in next three to five years. We will endeavor to achieve better performance so as to create more value for the Shareholders, and thereby achieving higher investment returns.



LIU Xingxu
Chairman of the Board
25 February 2013

Marketing & Publicity –oriented

With the aim of "rendering services to benefit people based on trust and integrity", the Group consolidates its leading status in the market through newly positioning itself to be the "Pioneer of high-efficiency fertilisers in China".

Brand Building

Our culture	:	To render services with integrity, trust and sincerity
Our mission	:	For a better tomorrow
Our vision	:	To become the most respected enterprise in the fertiliser industry
Our totem	:	Ox (we serve our customers with dedication and commitment; while we master challenges that lie ahead with courage and determination)

The Group always lays great emphasis on brand building. To further enhance brand propaganda, the Group has engaged a professional brand information institution to reposition its brand and consolidate the requirements of customers in 2012. As a result, the Group launched a new brand-building strategy to position itself as **"Pioneer of High-efficiency Fertilisers in China"** and formulated a professional systematic new brand-building plan that would raise core competitiveness of the Group by consolidating the merits of its strategies, brand and products. Leveraging on media publicity, participation in events and terminal enhancement, the Group made breakthroughs in many aspects, from products to brand awareness, from production to marketing and from unit to system, and ultimately achieved the target of great leap forward growth.

Meanwhile, the Group appointed Mr. Tang Guo Qiang, a famous artist, as its image representative. (Mr. Tang Guo Qiang is a famous artist in China, who played the role of Zhuge Liang in TV series "Romance of the Three Kingdoms" (《三國演義》) and played the role of Mao Zedong in TV series "Long March" (《長征》). The roles he played were widely recognised and accepted by people, demonstrating a kind of leadership spirits and integrity which are similar to the image of "Pioneer of High-efficiency Fertilisers" promoted by the Group, a totally different way from what other fertiliser companies did in appointing comedians such as cross talk actors as their image representative.) In addition, the Group launched its most promising products: polyaspartic-based urea (聚能網尿素) and polyaspartic-based compound fertiliser (聚能網複合肥), which boosted sales of urea and compound fertiliser, enhanced XLX brand image and stimulated sales growth.

Corporate Social Responsibility

As the only China-based fertiliser company listed on both Hong Kong Stock Exchange and Singapore Exchange, China XLX has been actively performing its corporate social responsibilities ("CSR") while pursuing the best possible profitability, safeguarding interests of our Shareholders, employees, customers, business partners and the society in general, treating our suppliers, customers and consumers in good faith, striving to improve our execution efficiency and quality in virtue of our expertise and competitive superiority and combining performance of our social responsibilities with enhancement of our competitive edges.

Environmental Protection and Sustainable Development

The Group places much importance on environmental protection, energy-saving and emission-reduction, and has continuously formulated and improved a series of regulation policies to improve our environmental management, laying a solid foundation for future development. In 2012, the Group allocated RMB6.96 million on environment protection, among of which RMB3.20 million was earmarked for the upgrade of hydrolysis, recycled water system and refuse oil refining projects, which accomplished the integrated use of the internal resources of the Group; RMB0.66 million was spent on processing the dust from raw coal field, which showed that the Group performed its social responsibility; and RMB3.1 million was spent on flue gas desulphurisation, blow gas reconstruction and chimney anti-corrosion. Meanwhile, due to the fact that the Group successfully introduced the comparison management model and leveraged on the environmental information platform to ensure the accomplishment of our targets, it won such honours as an "Exemplary Unit for Environment Protection in the Petroleum & Chemical Industry during the 11th Five-Year Period", a "Certified Exemplary Unit for Clean Production" and an "Exemplary Unit for Innovation on Energy-saving & Emission Reducing Technology in Henan Province". During the period of the Twelfth Five-Year Plan, as one of the participants of the "10,000-Enterprise Energy-Saving Campaign", China XLX signed an agreement with the government on a target of saving 119,000 tons of standard coal, and with an amount of 109,200 tons of standard coal having been saved for 2012, it represented 91.7% of the target was achieved.

China XLX carefully implemented the government's energy saving and environmental protection policies. Through management optimisation and technology upgrade, the Group actively promotes the clean production of nitrogen fertiliser and the recycling economy and accelerates the research & development and promotion of energy-saving & emission-reduction and waste treatment technologies so as to substantially reduce the emission of pollutant and improve the utilisation of resources. The Group will make sure the policies of energy saving and environmental protection carried out throughout the process of production by prescribing objectives and positions and responsibilities, as a result of which agreeable results have been achieved both in improvement of energy saving and environment protection technology and scientific management.

Public-Spirited Passion and Contribution to Society

China XLX honors integrity in business operations and lawful and faithful tax paying, which is the philosophy of social responsibility. In 2012, the Group paid RMB129 million taxes in total. Meanwhile, the Group is keen to support the local communities through various channels such as eco-friendly, educational, cultural, sports, science, sanitation activities. The Group is dedicated to keeping heart-felt sincerity and passion to contribute to society. In 2012, the Group donated a total amount of about RMB600,000, of which, RMB500,000 was donated to the the 10th Sports Games of Xinxiang City and RMB100,000 was donated to "Give Warmth, Show Your Love" donation activity.

Product innovation

Since the listing of the Group, revenues from sales have been growing steadily and the financial position has remained healthy.

Management Discussion and Analysis

(I) Business Review

Production profile of the Group in 2012:

Output:

As of the end of 2012, total output of urea from the Group for the year reached 1,316,000 tons. The total output of compound fertiliser and methanol for the year reached 398,000 tons and 223,000 tons respectively.

Utilisation rate of production facilities:

	For the year ended 31 December					
	2012			2011		
	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	1,316	105	1,250	1,296	104
Compound fertiliser	750	398	53	600	409	68
Methanol	200	223	112	200	183	92

Data for coal and power consumption:

	For the year ended 31 December	
Coal consumption (ton)	2012 Per ton of urea	2011 Per ton of urea
Feed coal	**0.627**	0.629
Fuel coal	**0.165**	0.199
Total coal consumption	**0.792**	0.828

	For the year ended 31 December	
Power consumption (kwh)	2012 kwh per ton	2011 kwh per ton
Urea	**743**	725
Compound fertiliser	**23**	25
Methanol	**823**	1,070

(II) Financial Review

Revenue

Revenue for FY2012 increased by approximately RMB258 million or approximately 7% from approximately RMB3,688 million in FY2011 to approximately RMB3,946 million in FY2012. The increase was due to the increase in urea and compound fertiliser average selling prices and increase in methanol and compound fertiliser sales volume.

Urea

Revenue derived from the sales of urea increased by approximately RMB90 million or approximately 3.7% from approximately RMB2,409 million in FY2011 to approximately RMB2,499 million in FY2012. Such increase was mainly due to the increase in average selling price by approximately 3.8%.

Methanol

Revenue derived from the sales of methanol increased by approximately RMB73 million or approximately 17.3% from approximately RMB422 million in FY2011 to approximately RMB495 million in FY2012. Such increase was mainly due to the increase in sales quantity of approximately 21.5% despite the average selling price declined by approximately 3.5%.

Compound fertiliser

Revenue derived from the sales of compound fertiliser increased by approximately RMB89 million or approximately 10.5% from approximately RMB849 million in FY2011 to approximately RMB938 million in FY2012. Such increase resulted from the increase in sales

volume by about 5.3% and the increase in average selling price by approximately 4.8% for the year ended 31 December 2012.

Profitability

Overall profit margin increased from 13.7% in FY2011 to 18.2% in FY2012 due to increase in urea and methanol gross profit margins.

Urea

Gross profit margin for urea sales increased from approximately 16.9% in FY2011 to 22.9% in FY2012 due to higher urea average selling prices and lower urea average cost of sales. The average urea cost of sales decreased by 3.7% due to lower coal prices.

Methanol

Gross profit margin of methanol increased from a negative of 6.4% in FY2011 to a positive margin of 3.9% in FY2012 although the methanol average selling prices decreased by approximately 3.5% in FY2012 as compared against FY2011. This was due to lower coal prices which cut down methanol average cost of sales by about 12.9% in FY2012 as compared against FY2011.

Compound fertiliser

Gross profit margin of compound fertiliser declined from approximately 15.0% in FY2011 to 13.6% in FY2012. This was mainly due to the increase in compound fertiliser average cost of sales by approximately 6.5% and partially offset by the increase in average selling prices by approximately 4.8%.

Other income and gains

Other income increased by approximately RMB5 million from approximately RMB24 million in FY2011 to approximately RMB29 million in FY2012. This was mainly due to the increase of RMB6 million in government subsidies in FY2012.

Selling and distribution expenses

Selling and distribution expenses decreased by approximately RMB2 million from approximately RMB71 million in FY2011 to approximately RMB69 million in FY2012. This was mainly due to approximately RMB7 million decrease in transportation expenses, as the dedicated railway serving to connect the Group's Production Plants II and III located in Xinxiang and Xinxiang East Railway Station enables the Group to load and unload the finished goods and raw materials directly from the railway to the production plants. However, this decrease in transportation expenses was partially offset by increase in salaries and depreciation expenses of RMB2 million and RMB4 million respectively.

General administrative expenses

General and administrative expenses increased by approximately RMB66 million or approximately 48.5% from approximately RMB136 million in FY2011 to approximately RMB202 million in FY2012. This was due to approximately RMB29 million increase in staff cost arising from wage increase in January 2012 and increase in the number of employees for the Production Plant IV. Office expenses increased by approximately RMB14 million due to the Group's expansion. The advertising and publicity expenses increased by approximately RMB12 million to build up the Group's XLX branding and customer awareness. Other general and administrative expenses such as environment expenses, stamp duties, amortisation of land use right and depreciation expenses increased by approximately RMB11 million.

Other expenses

Other expenses increased by approximately RMB2 million from approximately RMB20 million in FY2011 to approximately RMB22 million in FY2012. This was mainly due to the increase in loss on disposal of items of property, plant and equipment of RMB8 million and personal tax expenses of RMB8 million paid for the former owner of a subsidiary in the current year. But such increase was offset by a decrease of approximately RMB15 million in impairment loss on an available-for-sale investment from RMB16 million in FY2011 to RMB1 million in FY2012.

Finance costs

Finance costs increased by approximately RMB3 million or approximately 3.8% from approximately RMB79 million in FY2011 to approximately RMB82 million in FY2012. The increase was due to more interest-bearing bank and other borrowings raised in FY2012 as compared against FY2011.

Income tax expense

Income tax expense increased by approximately RMB17 million or approximately 38.6% from approximately RMB44 million in FY2011 to approximately RMB61 million in FY2012 due to higher taxable profits generated by the Group.

Profit attributable to owners of the parent

The profit attributable to owners of the parent increased by approximately RMB130 million or approximately 71.8% from approximately RMB181 million in FY2011 to approximately RMB311 million in FY2012. This was mainly due to the increase in gross profit by approximately RMB213 million led by the decrease in urea and methanol average cost of sales and increase in urea average selling prices in FY2012. The increase in profit attributable to owners of the parent in FY2012 was partially offset by the increases in general and administrative expenses and income tax expense by approximately RMB66 million and RMB17 million respectively.

Gearing

The Group monitors capital by 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%.

	2012 RMB'000	2011 RMB'000
Due to related companies	135	163
Trade payables	110,773	120,843
Bills payable	25,800	–
Accruals and other payables	422,437	336,373
Interest-bearing bank and other borrowings	1,851,485	1,608,091
Short-term bond payable	300,000	–
Less: Cash and cash equivalents	(477,610)	(514,098)
Less: Pledged deposits	(12,900)	(10,000)
Net debt	2,220,120	1,541,372
Equity attributable to owners of the parent	2,321,202	2,061,677
Less: Statutory reserve fund	(167,873)	(133,655)
Total capital	2,153,329	1,928,022
Capital and net debt	4,373,449	3,469,394
Gearing ratio	50.8%	44.4%

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

Borrowings

Amounts payable in one year or less, or on demand

	As at 31 December 2012		As at 31 December 2011	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bank loans	–	172,000	90,000	451,000
Short-term bond payable	–	300,000	–	–
	–	472,000	90,000	451,000

Amounts payable after one year

	As at 31 December 2012		As at 31 December 2011	
	Secured RMB'000	Unsecured RMB'000	Secured RMB'000	Unsecured RMB'000
Bank loans	–	1,672,212	–	1,058,000
Loan from the government	–	7,273	–	9,091
	–	1,679,485	–	1,067,091

Details of collateral

As at 31 December 2012, the Group had no secured loans. As at 31 December 2011, the Group had short-term loans of approximately RMB90 million, which were guaranteed by Xinxiang Xinya Paper Group Ltd., an independent third party of the Group.

(III) Prospects

Looking ahead in the year 2013, it is expected that the PRC government will continue its support of the "Agriculture, Farmers and Rural Area" policy and may increase subsidies to increase farmers' disposable income, which increase is likely to motivate farmers to improve agricultural productivity in 2013. The PRC government has announced material changes in the urea export tax policy to bring the base rate for urea in the low-tax window down from 7% to 2% and reduce the tax rate for high season from 110% to 77%. The directors believe these policies are beneficial to the Group as it is one of the leading and most cost efficient manufacturers of urea and compound fertiliser in the PRC and is strategically located in Henan, which is one of the largest agricultural provinces. Although the year 2013 will continue to see further consolidation in the industry, the directors are confident that this will be beneficial for the Group in the long term as the Group continues with the expansion and development of its XLX branding.

(IV) Proposed Final Dividend

The Board recommended the payment of a final dividend of RMB0.063 per share for the year ended 31 December 2012 (2011: RMB0.037 per share), subject to the Shareholders' approval at the forthcoming 2013 AGM.

(V) Supplementary Information

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

For the year ended 31 December 2012, 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 relates to 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 approximately 2.6% in the year ended 31 December 2012 as compared to an increase of approximately 5.4% in 2011. 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 regularly reviews 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 2012, approximately RMB472 million (31 December 2011: RMB541 million), or approximately 21.9% (31 December 2011: 33.6%) of the Group's debts will mature in less than one year based on the carrying values of the borrowings and the short-term bond payable reflected in the financial statements.

(vii) Gearing Risk

The Group monitors its capital ratios in order to support its business and maximise Shareholders' value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011. The gearing ratio of the Group (calculated as net debt divided by total capital plus net debt) increased from approximately 44.4% as at 31 December 2011 to approximately 50.8% as at 31 December 2012.

Team dedication

We attribute our achievements and breakthroughs to our dedicated team at China XLX. The team is committed to uphold the vision with integrity, discipline and strong commitment.

Biographies of Board of Directors and Senior Management

Board of Directors

Executive Directors

Mr. LIU Xingxu Chairman of the Board and Chief Executive Officer

Aged 58, 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. He is also a member of the NC. Mr. Liu has nearly 20 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 Fertiliser 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 the 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 Committee of Henan Province and Personnel Bureau of Henan Province for his 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, and he was the winner of "National Labor Day Medal" in 2009 issued by All China Federation of Trade Unions. 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. Mr. Liu is the controlling shareholder and a director of Pioneer Top Holdings Limited, a substantial Shareholder.

Ms. YAN Yunhua Chief Financial Officer

Aged 42, 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 Jiaotong 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 nearly 20 years of accounting and finance experience. Ms. Yan is currently the executive chairman of the Finance Research Committee of China Nitrogen Fertiliser Industry Association and the vice chairman of Henan Accountants Association. She joined Xinxiang Fertiliser Factory in December 1997 and held various positions in Xinxiang Fertiliser 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 the PRC in 2008, and Advanced Worker in Accounting of Henan Province in 2009. Ms. Yan is the controlling shareholder and a director of Go Power Investments Limited, a substantial Shareholder.

Mr. LI Buwen

Aged 60, 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 Fertiliser Factory, including the deputy head of Xinxiang Fertiliser 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 from July 2006 to June 2012. Mr. Li obtained certification of National Enterprises Human Resource Management and Development from the State Economic and Trade Commission Economic Cadre Training Centre and certification of Internal Quality System Inspector from the Beijing Quality Association Quality Management Technical Services Centre 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.

Non-executive Director

Mr. LIAN Jie

Aged 38, has been appointed as our non-executive Director since 21 December 2011. Now he is a partner of Primavera Capital Group, a private equity fund which focuses on the PRC. Mr. Lian currently is an independent non-executive director of Bona Film Group Limited (a company listed on NASDAQ Stock Market). From 2009 to 2010, Mr. Lian served as a Managing Director of Hong Kong Investment Banking, China International Capital Corporation Limited, before which Mr. Lian held various positions in The Goldman Sachs Group, Inc., including as a Managing Director of Hong Kong Investment Banking Division during 2001 to 2009. Mr. Lian owns a Master of Business Administration degree of Tuck School of Business at Dartmouth College. Nitro Capital Limited (a substantial Shareholder) is wholly owned by Primavera Capital (Cayman) Fund I L.P., which in turn is within Primavera Capital Group.

Independent Non-executive Directors

Mr. ONG Kian Guan

Aged 45, has been appointed as our independent non-executive Director since 11 May 2007. He is also the chairman of the AC and a member of both the RC and the NC. He is a practising member and a fellow of the Institute of Certified Public Accountants of Singapore (the "ICPAS"), and also a partner with Baker Tilly TFW LLP. He has more than 19 years of professional experience in financial audits of multinational corporations and public listed companies from diverse industries. He is also an independent director of China Haida Ltd. (a company listed on the SGX-ST), Weiye Holdings Limited (a company listed on the SGX-ST) and China Animal Healthcare Ltd. (a company listed on the Hong Kong Stock Exchange and the SGX-ST). He has resigned as an independent director of JES International Holdings Limited (a company listed on the SGX-ST) with effect from 30 April 2012. Mr. Ong is also a serving member of the auditing and assurance standards committee of the ICPAS. Mr. Ong graduated from the Nanyang Technology University in Singapore with a bachelor of accountancy degree 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 50, has been appointed as our independent non-executive Director since 11 May 2007. He is also the chairman of the NC and a member of both the AC and the RC. He has been a professor in Shaoxing University since November 2004 and is currently the Dean of School of Economics and Management in Shaoxing University. Mr. Li has been the instructor of establishment of small and medium enterprises in Zhejiang Province, Small and Medium Enterprises Bureau in Zhejiang Province since 2006. Mr. Li is also an independent director of Anhui Jiangnan Chemical Industry Co., Ltd., a company listed on the Shenzhen Stock Exchange. With effect from 29 August 2012, Mr. Li has resigned as an independent director of Zhejiang Jinggong Science & Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange. Mr. Li graduated from Hangzhou University (which is currently known as "Zhejiang University") 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 the "high school outstanding youth teacher of Zhejiang Province" in September 1991.

Mr. ONG Wei Jin

Aged 46, has been appointed as our independent non-executive Director since 11 May 2007. He is also the chairman of the RC and a member of both the AC and the NC. He is a partner in Harry Elias Partnership LLP (a Singapore law firm). He is an independent director of Luzhou Bio-chem Technology Limited and Consciencefood Holding Limited (companies listed on the SGX-ST). Mr. Ong obtained a Bachelor of Laws degree from the National University of Singapore in 1990, a Master of Business Administration degree from University of Hull in 1993, and a Master of Laws degree from the National University of Singapore in 1995.

Senior Management

Mr. ZHANG Qingjin

Aged 46, has been the executive deputy general manager of Henan XLX Fertiliser since July 2011, and was the deputy general manager in charge of human resources department of Henan XLX Fertiliser since November 2006. He has over 20 years of experience in the chemical fertiliser industry. Mr. Zhang joined Xinxiang Fertiliser 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 Fertiliser 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.

Mr. RU Zhengtao

Aged 56, 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 Fertiliser Factory in 1974 and held various positions including assistant to head of Xinxiang Fertiliser Factory, deputy head of Xinxiang Fertiliser Factory and head of nitrogen fertiliser plant of Xinxiang Fertiliser 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 52, is the deputy general manager in charge of the research and development 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 Fertiliser Factory in August 1982 and was appointed as the deputy factory head of Xinxiang Fertiliser 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 49, 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 Fertiliser Factory, including the office head of nitrogen fertiliser plant of Xinxiang Fertiliser Factory from March 1993 and the deputy head and assistant to head of Xinxiang Fertiliser 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 University of Finance and Economics in June 2002.

Mr. ZHAO Lianzi

Aged 50, has been the deputy general manager of marketing and strategy department of Henan XLX Fertiliser since February 2012. He has more than 15 years of experience in the chemical fertiliser industry. He held various positions in the Company, including the deputy head of Xinxiang Fertiliser Factory from February 1999 to August 2000. He was the general manager of 河南新新化肥股份有限公司 from August 2000 to December 2003; the general manager of 河南心連心化肥有限公司複合肥分公司 from December 2003 to July 2010; the assistant to general manager of Henan XLX Fertiliser from July 2010 to February 2012. Mr. Zhao obtained a certificate of completion in master's course of business administration from Tianjin University of Finance and Economics in June 2002. In 2007, he completed EDP (Executive Development Programs) courses from Guanghua School of Management, Peking University.

Joint Company Secretaries

Ms. SOON Yuk Tai

Aged 46, has been appointed as one of the joint company secretaries of the Company since 1 September 2012. Ms. Soon is a director of the Corporate Services Division of Tricor Services Limited, a global professional services provider specialising in integrated business, corporate and investor services. She is a Chartered Secretary and a fellow of both The Institute of Chartered Secretaries & Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries. Ms. Soon has extensive experience in a diversified range of corporate services and has been providing professional services to a number of companies listed on the Main Board of the Hong Kong Stock Exchange and the Growth Enterprise Market of the Hong Kong Stock Exchange.

Mr. TEO Meng Keong

Aged 44, has been appointed as one of the joint company secretaries of the Company since 1 September 2012. Mr. Teo is a Senior Manager at Tricor Evatthouse Corporate Services and has over 15 years of experience in corporate secretarial practice and business consultancy. His area of exposure includes advisory and assistance in compliance matters of both public and private limited companies, business advisory to foreign investors including application of various licences to expedite setting up of businesses.

Investor Relations

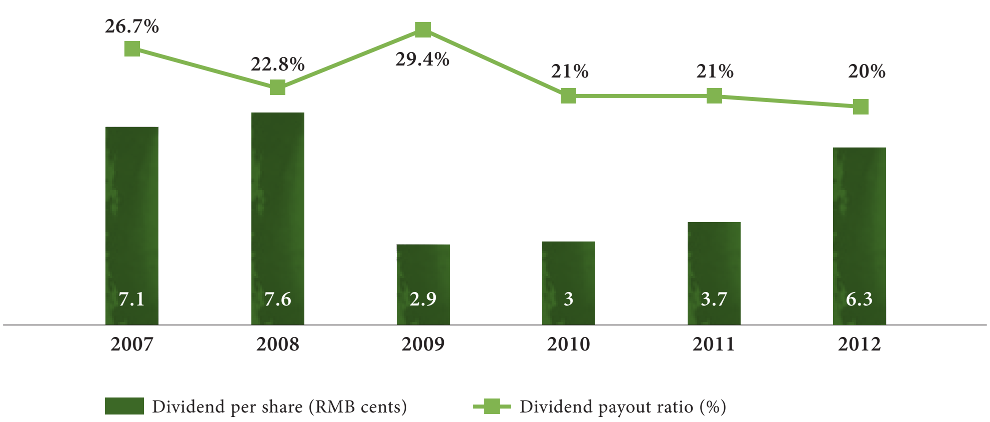
During 2012, the Company continued to strengthen its efforts in investor relations, which served as a bridge for effective communication between the Company and the capital market. The Company also listens attentively to various suggestions and proposals from the capital market with regards to the Company's management and operation in a proactive, sincere and humble manner so as to improve the Company's management quality, enhance Shareholders' value and maximise their interests.

Growth in Results with Robust Share Price Performance

During 2012, the Company continued to communicate its future story of growth with the capital market and share its understanding and expectation on the industry and the market through various communication channels including results announcement conference, press conference, stock commentator luncheon, one-on-one meetings, investor forums and non-deal roadshows organized by investment banks. With sufficient information exchange with analysts, it enabled a comprehensive understanding of the Company's development prospects and managed expectation of capital market in a timely and effective manner. The Company thereafter announced its better-then-expected 2012 2Q and 3Q results with remarkable growth, thus helping its share price better reflect the value and development prospects of the Company.

Shareholder Returns

The Company attaches great importance to the Shareholders' views on its dividend payout. The Company determines its dividends payout with reference to the Company's financial status, long-term development needs and potential investment opportunities. When we were listed on the Singapore Exchange in 2007, we promised to our Shareholders that our dividend payout ratio for each of the 3 years from 2007 to 2009 would not be less than 20% of our net profit after tax, and we have kept our promises. Even after the period of promise, we are still keeping the dividend payout ratio at 20% or above.



Enhancing Investor Relations Management System

The Company has been committed to establishing a highly efficient and well-organised investor relations management system. As early as in 2010, the Company added an "Investor Relations Information Management System" module in its internal office automation system to realise the IR information sharing. All industry updates and relevant operating data from the headquarters are reported to the representatives of investor relations based in Hong Kong and Singapore in a timely manner. Meanwhile, latest dynamics of the capital market including analyst reports, media coverages and investor relations activities are also promptly reported to the top management. As a result, the whole company is aware of the importance of investor relations. At the beginning of each year, the Company will come up with a plan for investor relations management for the whole year and focus on results announcement, non-deal roadshows and information disclosure. The Company also further upgraded the investor database with the support of its established investor relations management platform, thus standardising and systematising the major work on investor relations, including investor meeting scheduling, investor information's collection and classification as well as investor shareholding analysis.

Facilitating Diversified and Multi-channelled Investor Activities

The Company communicated its development philosophy and strategies and its latest operation results in the capital market in a timely manner through various investor communication channels, including analyst briefings, non-deal roadshows, one-on-one meetings, investor forums organised by investment banks, telephone conferences, emails, and investors' onsite visits as well as the Company's website. Meanwhile, according to the needs and styles of different analysts and investors, the Company flexibly arranged senior managements with different responsibilities to participate various investor relations activities. During 2012, the Company's senior management including the Chairman and the Chief Financial Officer participated in plenty of investor activities to fully communicate with the capital market, which realised multi-channelled communications. In 2012, the Company hosted one analyst briefing and press conference, three results announcement and analysis conferences, media conference calls and non-deal roadshows (including a global roadshow held in America) and two reverse roadshows. It also attended five investor forums sponsored by major investment banks and fund managers, and conducted hundreds of one-on-one meetings and conference calls in the usual courses. We have facilitated communications with a total of nearly 350 investors and analysts for the past year. In response to the requests of the investors, the Company also arranged nine plant visits to the headquarters of the Group in 2012, so as to give investors a better idea of the operations of the Group.

Investor relations activities in 2012

Date	Event	Location
December 2012	Stock Commentator Luncheon	Hong Kong
November 2012	Primavera Capital Investor Meeting	Beijing
November 2012	BoA Merrill Lynch 2012 Chinese Forum	Beijing
October 2012	Conference Call of 2012 3Q Results	Xinxiang, Henan
October 2012	Jefferie's 2nd Annual Summit of Asian Enterprise Promotion	Hong Kong
September 2012	CLSA Global Agriculture Investor Investigation Group	Xinxiang, Henan
August 2012	Analyst and Investor Reverse Roadshow	Xinxiang, Henan and Manas, Xinjiang
July 2012	Non-deal Roadshow for 2012 Interim Results	Beijing and Shanghai
July 2012	Conference Call of 2012 Interim Results	Hong Kong
July 2012	HSBC Industry Day	Hong Kong
June 2012	Standard Chartered's Earth's Resources Forum	Hong Kong
May 2012	Roadshow in America for 2012 1Q Results	Chicago, New York and Boston
May 2012	Conference Call of 2012 1Q Results	Hong Kong
April 2012	Annual General Meeting	Singapore
February 2012	Non-deal Roadshow for 2011 Annual Results	Hong Kong
February 2012	Conference of 2011 Annual Results • Analyst Briefing • Press Conference • Stock Commentator Luncheon	Hong Kong

Corporate Governance Report

The Company is committed to achieving and maintaining a high standard of corporate governance principles and processes in managing the business and affairs, so as to improve the performance, accountability, and transparency of Group.

During the year under review, the Board has reviewed its corporate governance practices and considered that except for the Guideline 3.1 of the Singapore CG Code (as defined below) and the code provision A.2.1 of the HK CG Code, the Company has complied with (i) the applicable provisions in the Code of Corporate Governance 2005 (the "Singapore CG Code") issued by the Council on Corporate Disclosure and Governance, Singapore; (ii) the Listing Manual; and (iii) code provisions in the former Code on Corporate Governance Practices (for the period from 1 January to 31 March 2012) and the HK CG Code (for the period from 1 April to 31 December 2012) as set out in Appendix 14 to the Listing Rules. Further, although the revised Code of Corporate Governance 2012 (the "Singapore CG Code 2012") issued by the Monetary Authority of Singapore on 2 May 2012 will only take effect in respect of annual reports for the financial year commencing from 1 November 2012, the Company has already complied with some of its key revised guidelines and principles for the purpose of enhancing the Group's practices and framework.

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 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. Details of the foregoing deviation are also set out below.

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 seven Directors: three executive Directors, one non-executive Director and three independent non-executive Directors, having the appropriate mix of core competence and diversity of experience to direct and lead the Company. The Board members are as follows:

Mr. Liu Xingxu	(Chairman of the Board, Chief Executive Officer and Executive Director)
Ms. Yan Yunhua	(Chief Financial Officer and Executive Director)
Mr. Li Buwen	(Executive Director)
Mr. Lian Jie	(Non-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 taking leadership and control of the Company to protect and enhance long-term Shareholders' value. It sets the corporate strategies of the Group, and 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 and the management. Each executive Director 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.

For each newly appointed Director, he/she will receive a comprehensive and formal induction covering the Company's business operation, policies and procedures as well as the statutory and regulatory obligations of being a Director to ensure that he/she has a proper understanding to the Company and is fully aware of his/her responsibilities and obligations of being a Director.

From time to time, Directors are regularly updated with the latest professional developments in relation to the Listing Rules, the Listing Manual and other applicable regulatory updates, like amendments to laws, rules and regulations, to ensure the compliance of the same by all Directors. In addition, the Directors have continuously participated in appropriate professional development activities such as attending internal sessions in relation to the corporate governance policies and reading materials in relation to the regulatory updates to develop and refresh their knowledge and skills. All Directors are encouraged to attend relevant training courses at the Company's expenses.

During the year ended 31 December 2012, all Directors received regular briefings and updates from the Company Secretaries on salient laws and regulations applicable to the Group. Reading materials relevant to Directors' duties and responsibilities are also provided to Directors for their studying and reference.

The Board has formed specialised committees namely the AC, the NC and 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 general meetings held and meetings held for the Board and the Committees for the financial year ended 31 December 2012 and the attendance of the Directors/members of the Committees in these meetings:

	Annual General Meeting	Extraordinary General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
No. of meetings held	1	2	8	6	1	1
Attendance:						
Mr. Liu Xingxu	1	2	7	N.A.	N.A.	1
Ms. Yan Yunhua	1	2	8	N.A.	N.A.	N.A.
Mr. Li Buwen	1	2	7	N.A.	N.A.	N.A.
Mr. Lian Jie	1	2	3	N.A.	N.A.	N.A.
Mr. Ong Kian Guan	1	2	8	6	1	N.A.
Mr. Li Shengxiao	1	2	7	6	1	1
Mr. Ong Wei Jin	1	2	7	5	1	1

While the Board considers Directors' attendance at Board and Committee 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.

Corporate Governance Functions

The Board as a whole is responsible for performing the corporate governance functions set out in the code provision D.3.1 of the HK CG Code. The Board has reviewed and monitored the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the policies and practices on compliance with legal and regulatory requirements, the code of conduct applicable to Directors and employees, and the Company's compliance with the Singapore CG Code and the HK CG Code and disclosure in this Corporate Governance Report.

Board Composition and Guidance

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 and 10% shareholders ("10% shareholder" refers to a person who has an interest or interests in one or more voting shares in the company and the total votes attached to that share, or those shares, is not less than 10% of the total votes attached to all the voting shares in the company). No individual or small group of individuals should be allowed to dominate the board's decision making.

As set out above, the Board consists of seven Directors, three of whom 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 independent element, and collectively possess the necessary core competence for effective functioning and informed decision-making.

For the year ended 31 December 2012, the Board has at all times complied with the requirements of the Listing Rules of having three independent non-executive Directors, representing more than one-third of the Board, and one of the independent non-executive Directors has appropriate professional qualifications, accounting and related financial management expertise. The Company has received from its independent non-executive Directors their annual confirmation of independence pursuant to the Singapore CG Code and Rule 3.13 of the Listing Rules and the Company still considers all of them to be independent.

There is no relationship (including financial, business, family and other material relationships) among members of the Board. Key information regarding the Directors is given in the "Biographies of Board of Directors and Senior Management" on pages 40 to 45 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 67 to 79 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 Chairman of the Board and the Chief Executive Officer since the incorporation of the Company. He is in charge of the Group's overall strategic directions and manages the day-to-day business operations. This deviates from Guideline 3.1 of the Singapore CG Code and code provision A.2.1 of the HK CG Code which require that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. However, the Board considers such structure beneficial to the Group as the Board believes that Mr. Liu Xingxu, who has extensive experience in the industry, can provide the Company with strong and consistent leadership and visions and also allows for effective and efficient planning and implementation of business decisions and strategies. He can also ensure timeliness of information flow between the Board and management.

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

Pursuant to Guideline 3.3 of the Singapore CG Code, a company should appoint an independent director to be the lead independent director where its Chairman and Chief Executive Officer is the same person. To comply with this requirement, Mr. Ong Kian Guan has been appointed as the lead independent non-executive Director.

Board Membership

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

The Company has established the NC which oversees matters relating to the Board composition and appointment/re-appointment of Directors. The NC comprises the following four members, the majority of whom are independent non-executive Directors.

Mr. Li Shengxiao	(Chairman)
Mr. Ong Kian Guan	(Member) (appointed on 26 February 2013)
Mr. Ong Wei Jin	(Member)
Mr. Liu Xingxu	(Member)

The NC's main functions under its terms of reference include:

(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 candor);

(b) to determine annually whether or not a Director is independent;

(c) to review the structure, size and composition of the Board and where appropriate, make recommendations to the Board on the proposed changes to complement the Company's corporate strategy;

(d) in respect of a Director who has multiple directorships in various companies, to decide whether or not such Director is able to carry out and has been adequately carrying out his/her duties and responsibilities as Director, having regard to the competing time commitments that are faced when serving on multiple boards; and

(e) to decide how the Board, its Committees and Directors' performance may be evaluated and propose objective performance criteria. Such performance criteria, as approved by the Board, allows comparison with its industry peers, and addresses how the Board has enhanced long-term Shareholders' value.

Each of the executive Directors has entered into a service contract with the Company whereas the Company has issued a letter of appointment to each of the independent non-executive Directors and the non-executive Director. All Directors are appointed for a specific term of 3 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 considering the appointment of a new Director, the NC may make reference to certain criteria such as integrity, skills, experience, time commitments, independence, etc. The Articles has also stated clearly the procedures for the appointment of new Directors, and re-election and removal of Directors. The Articles require one-third of the Board to retire from office at each AGM such that the Directors shall retire at least once every three years; and a retiring director shall be eligible for re-election at the AGM. Pursuant to the said provision in the Articles, Mr. Liu Xingxu, Mr. Ong Kian Guan and Mr. Ong Wei Jin will retire and, being eligible, offer themselves for re-election at the forthcoming 2013 AGM.

Board Performance

Principle 5: There should be a formal assessment of the effectiveness of the board as a whole and its board committees 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 established and implemented processes including taking into consideration the attendance records at the meetings of the Board and the Board Committees for monitoring and evaluating the performance of the Board as a whole and effectiveness and contribution of individual Directors. At the same time, the processes also identify weaker areas where improvements can be made. The Board and individual Directors can direct more effort in such areas for enhancing the effectiveness of the Board and the performance of individual Directors.

The Directors shall disclose to the Company details of other significant offices held by them. Where a Director has multiple directorships, 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. For the year ended 31 December 2012, the Board is satisfied that each Director has allocated sufficient time and resources to the affairs of the Company.

During the year ended 31 December 2012, the NC held one meeting. Details of individual attendance of each member at the meeting are set out on page 51. At the said meeting, the NC: (i) evaluated the performance of the Board as a whole and each Director; (ii) considered and recommended the re-election of the retiring Directors at the 2012 AGM; and (iii) assessed the independence of independent non-executive Directors.

Access to Information

Principle 6: In order to fulfil 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 cognizant 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 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 and/or his/her representative(s) attend(s) all Board meetings and meetings of the Board Committees of the Company to ensure that Board procedures are followed and applicable rules and regulations are complied with. Draft minutes of meetings of the Board and the Committees are circulated to Directors and the Committees members, as the case may be, for comments within a reasonable time after each meeting and the final version is open for Directors' inspection.

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 the following three members, all of whom are independent non-executive Directors.

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

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 own remuneration package.

The RC's main functions under its terms of reference include:

(a) to recommend to the Board a framework of remuneration for the Directors and senior management, and the remuneration packages for Directors and senior management;

(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 an aim to maintain fairness and to 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 and key executives 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.

During the year ended 31 December 2012, the RC held one meeting. Details of individual attendance of each member at the meeting are set out on page 51. At the said meeting, the RC reviewed the remuneration framework for Directors, key executives and the immediate family members of the Directors by reference to the Group's performance and profitability as well as the remuneration level of some listed corporations in our industry.

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 the executive Directors' employment.

Disclosure on Remuneration

Principle 9: Every company should provide clear disclosure of its remuneration policies, 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 summary remuneration table for the Directors of the Group for the financial year ended 31 December 2012 is set out below:

	Salary %	Bonus %	Directors' fees %	Total remuneration %
S$500,000 and above	–	–	–	–
Mr. Liu Xingxu	28	72	–	100
S$250,000 to S$499,999				
Ms. Yan Yunhua	29	71	–	100
Mr. Li Buwen	29	71	–	100
Below S$250,000				
Mr. Ong Kian Guan	–	–	100	100
Mr. Li Shengxiao	–	–	100	100
Mr. Ong Wei Jin	–	–	100	100
Mr. Lian Jie	–	–	–	–

The summary remuneration table for senior management and the top five key executives of the Group (who are not Directors) for the financial year ended 31 December 2012 is set out below:

	Salary %	Bonus %	Total remuneration %
S$500,000 and above	–	–	–
S$250,000 to S$499,999	–	–	–
Below S$250,000			
Mr. Yao Jie (Top five key executive)	100	–	100
Mr. Zhang Qingjin (Senior management and top five key executive)	35	65	100
Mr. Ru Zhengtao (Senior management and top five key executive)	34	66	100
Mr. Li Yushun (Senior management and top five key executive)	34	66	100
Mr. Wang Nairen (Senior management and top five key executive)	34	66	100
Mr. Zhao Lianzi (Senior management)	46	54	100

Immediate Family Member of Directors or Substantial Shareholders

No employee of the Company and its subsidiaries, who is an immediate family member of a Director and/or a substantial Shareholder, have received remuneration exceeding S$150,000 during the financial year ended 31 December 2012.

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 and the Listing Rules.

Price sensitive information will be publicly released before the Company's disclosure of any of such information to any group of investors or analysts. Financial results and reports will be announced or issued within the prescribed periods under the statutory or regulatory requirement.

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 is 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 Group's ability to continue as a going concern.

The statement of the auditor of the Company about their reporting responsibilities on the 2012 financial statements of the Group is set out in "Independent Auditor's Report" on pages 81 to 82 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 being independent non-executive Directors:

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

The AC's main functions under its terms of reference include:

i. reviewing the audit plans and reports of our internal and external auditors;

ii. reviewing the financial statements before submission to the Board for approval;

iii. making recommendations to the Board on the proposals to the Shareholders on the appointment, re-appointment and removal of the external auditor, and approving the remuneration and terms of engagement of the external auditor;

iv. reviewing the independence and objectivity of the external auditor;

v. reviewing the interested person transactions (within the definition of the Listing Manual)/continuing connected transactions (within the definition of the Listing Rules);

vi. reviewing the effectiveness and adequacy of the internal accounting and financial controls procedures, internal controls system and risk management system;

vii. generally undertaking such other functions and duties as may be required by the Listing Manual and the Listing Rules; and

viii. reviewing the effectiveness of the Company's internal audit function and consider the appointment and termination of our internal auditor.

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 on any resolutions in which he has interest.

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 Company confirms that it has complied with Rules 712 and 715 of the Listing Manual in engaging Ernst & Young LLP, registered with the Accounting and Corporate Regulatory Authority, Singapore, as the external auditor of the Company. The AC reviews the independence of the external auditor annually. The AC, having reviewed the range and value of non-audit services performed by the external auditor, Ernst & Young LLP, was satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditor. The AC recommended that Ernst & Young LLP be nominated for re-appointment as auditor at the forthcoming 2013 AGM. There is no disagreement between the Board and AC regarding the selection, appointment, resignation or dismissal of external auditor. During the year under review, the Company has paid approximately S$330,000 (2011: approximately S$280,000) and S$19,000 (2011: approximately S$13,000) to the external auditor of the Company and other auditors, respectively, for their audit services, and has paid an aggregate of approximately S$100,000 (2011: approximately S$24,000) to other auditors for their other non-audit professional services such as reviewing of the Company's internal control system.

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

The AC constantly receives updates from the external auditor pertaining to the latest changes to the accounting standards and issues which have a direct impact on financial statements.

During the year ended 31 December 2012, the AC held six meetings. Details of individual attendance of each member at the meeting are set out on page 51. The AC has performed the following major works during the year ended 31 December 2012:

(a) Review and discussion of the annual report and accounts for the year ended 31 December 2011, and the related accounting principles and practices adopted by the Group;

(b) Review and discussion of the internal control system;

(c) Review of the whistle-blowing policy and the concerns raised, if any;

(d) Review and discussion of the interested person transactions (including the continuing connected transactions) of the Company for the year ended 31 December 2011;

(e) Review of the independence of the external auditor and recommendation of its re-appointment at the Company's 2012 AGM;

(f) Review and discussion of the accounts for the first quarter ended 31 March 2012 and the third quarter ended 30 September 2012, respectively, and the related accounting principles and practices adopted by the Group;

(g) Review and discussion of the half-year report and accounts for the six months ended 30 June 2012, and the related accounting principles and practices adopted by the Group;

(h) Review and discussion of the internal audit reports; and

(i) Discussion of the nature, plan and scope of the Group's audit for the year ended 31 December 2012.

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.

Based on the reports submitted by the external and internal auditors and the various management controls put in place, the Board has conducted a review of the effectiveness of the internal control systems of the Group and, with the concurrence of the AC, is satisfied that the internal control system maintained by the Group's management throughout the financial year ended 31 December 2012 is adequate to address the financial, operational and compliance risks pursuant to Rule 1207(10) of the Listing Manual.

Internal Audit

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

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 auditor's and external auditor's reports and the internal controls in place, and is satisfied that there are adequate internal controls in the Company.

In compliance with the HK CG Code, the Board with the concurrence of the AC is satisfied with the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

Risk Management

The Group's system of internal controls has a key role in the identification and management of risks that are significant to the achievement of its business objectives. The process of business risk management has been integrated throughout the Group into business planning and monitoring process. Management continuously evaluates and monitors the significant risks. The Board reviews the overall risk management process to ensure that there are adequate controls and other processes in place to manage the significant risks identified.

The significant risk factors relevant to the Group's operations and the associated mitigating factors are discussed on pages 36 to 37 of the Annual Report.

Communication with Shareholders/Investors and Investor Relations

Communication with Shareholders/Investors

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

Principle 15: Companies should encourage greater shareholder participation at AGMs, and allow shareholders the opportunity to communicate their views on various matters affecting the company (as amended by Principle 16 of the Singapore CG Code 2012).

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) Announcements, financial reports, circulars and news release published on the websites of SGX-ST and SEHK;

(b) Financial reports prepared and issued to all Shareholders;

(c) Press releases on major developments of the Group;

(d) Notices of and explanatory memoranda for AGM and 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.

The Company's general meetings 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 auditor shall also be present at AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence.

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 general meeting will be advertised in newspapers and published on the websites of the SGX-ST, SEHK and the Company.

To safeguard Shareholders' interests and rights, a separate resolution shall be proposed for each substantially separate issue at Shareholders' meetings, including the election of individual Directors. All resolutions put forward at Shareholders' meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company, SEHK and SGX-ST after each Shareholders' meeting.

Shareholders' Rights

Convening an Extraordinary General Meeting by Shareholders

Pursuant to Article 47 of the Company's Articles, the Directors may whenever they think fit, and shall on requisition in accordance with the statute, proceed with proper expedition to convene an EGM.

Pursuant to the Companies Act:

(a) Shareholders holding 10% or more of the paid-up capital of the Company which carries the right to vote at general meetings as at the date of the deposit of the requisition, may requisition the Board to convene an EGM. The written requisition must specify the objects of the meeting, signed by the Shareholders concerned and be deposited at the registered office of the Company for the attention of the Board or the Company Secretary.

(b) The Board shall proceed to convene an EGM within 21 days of the deposit of such written requisition. Such EGM shall be held within 2 months after the deposit of such written requisition.

(c) If the Directors do not within 21 days after the date of the deposit of the requisition proceed to convene an EGM, the requisitionists, or any of them representing more than 50% of the total voting rights of all of them, may themselves, in the same manner as nearly as possible as that in which meetings are to be convened by Directors convene a meeting, but any meeting so convened shall not be held after the expiration of 3 months from that date.

Putting Forward Proposals at General Meetings

In general, subject to the paragraph below, no resolution may be proposed at a Shareholders' meeting (whether it is an EGM or an AGM) if such resolution is not included in the notice convening the general meeting. However, if the proposal is to amend an existing resolution set out in the notice convening the general meeting and such amendment is within the scope of the notice, such amendment may be made if approved by the Shareholders by ordinary resolution.

On the requisition in writing of (i) either any number of shareholders representing not less than 5% of the total voting rights of all the Shareholders having at the date of the requisition a right to vote at the meeting to which the requisition related, or (ii) not less than 100 Shareholders on which there has been paid up an average sum, per Shareholder, of not less than S$500, the Company shall be under a duty to:

(a) give to Shareholders entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) circulate to Shareholders entitled to have notice of any general meeting sent to them any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Notice of any such intended resolution shall be given, and any such statement shall be circulated, to Shareholders entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such Shareholder in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other Shareholder by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company. The requisition shall be deposited at the registered office of the Company at least six weeks before the meeting.

Investor Relations

For putting forward any enquiries to the Board, Shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries. Shareholders may send their enquiries to the following:

Address:	Unit 31, Level 3, Three Pacific Place, 1 Queen's Road East, Hong Kong (For the attention of the Head of Investor Relations)
Fax:	(852) 2855 6800
Email:	stephan.yao@chinaxlx.com.hk

During the year under review, the Company has not made any changes to the Articles. An up to date version of the Articles is also available on the Company's website and the SEHK's website. Shareholders may refer to the Articles for further details of the rights of Shareholders.

Company Secretary

Mr. Teo Meng Keong of Tricor Evatthouse Corporate Services (a division of Tricor Singapore Pte. Ltd.) and Ms. Soon Yuk Tai of Tricor Services Limited, both of which companies being external service providers, have been engaged by the Company as its joint company secretaries. Their primary contact persons at the Company are Ms. Yan Yunhua, the Chief Financial Officer and an executive Director, and Mr. Yao Jie, the Head of Investor Relations of the Company.

During the year under review, both of Mr. Teo and Ms. Soon have taken the requisite professional training pursuant to Rule 3.29 of the Listing Rules.

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (as set out in Appendix 10 to the Listing Rules) and Rule 1207(19) of the Listing Manual (collectively the "Model Code") as its own code of conduct regarding directors' dealings in the Company's securities. Having made specific enquiry of all Directors, they have complied with the Model Code and throughout the year ended 31 December 2012.

The Company also has established written guidelines on no less exacting terms than the Model Code (the "Employees Written Guidelines") regarding dealings in the Company's securities by employees who are likely to possess inside information of the Company and/or its securities. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

In case when the Company is aware of any restricted period for dealings in the Company's securities, the Company will notify its Directors and relevant employees in advance.

Interested Person Transactions Policy

The Company has 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 2012 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.	–	31,109

Material Contracts

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

Use of proceeds

The Company used the net proceeds of RMB322 million from the issue of convertible bonds to Nitro Capital Limited completed on 21 December 2011 (the "CB Issuance") for the construction and development of the fourth production plant and the fifth production plant and for general working capital purpose. As at 31 December 2012, the Company has utilised all the proceeds from the CB Issuance in accordance with the announced purposes.

Report of the Directors

The directors (the "Directors") of China XLX Fertiliser Ltd. (the "Company") are pleased to present their report to the members together with the audited consolidated financial statements of the Company and its subsidiaries (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 2012.

Principal activities

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 20 to the financial statements.

Results and dividends

The Group's profit for the year ended 31 December 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 83 to 155 of this annual report.

No interim dividend was paid during the year. The Directors recommend the payment of a final dividend of Renminbi ("RMB") 0.063 (2011: RMB0.037) per share in respect of the year to shareholders of the Company (the "Shareholders") on the register of members on 10 May 2013. 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 five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 156 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 and convertible bonds

There were no movements in the Company's issued capital during the year. Details of the Company's share capital and movement in the Company's convertible bonds are set out in notes 34 and 32 to the financial statements, respectively.

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 subsidiaries 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 on pages 86 to 87 of this annual report.

Charitable contributions

During the year, the Group made charitable contributions totalling RMB623,800 (2011: RMB196,300).

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 43% of the total purchases for the year and purchases from the largest supplier included therein amounted to 16%.

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 suppliers.

Directors

The Directors during the year are:

Executive Directors:

Liu Xingxu
Yan Yunhua
Li Buwen

Non-executive Director:

Lian Jie

Independent Non-executive Directors:

Ong Kian Guan
Li Shengxiao
Ong Wei Jin

In accordance with Articles 89 and 90 of the Articles, Mr. Liu Xingxu, Mr. Ong Kian Guan and Mr. Ong Wei Jin will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of the independent non-executive Directors and 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 40 to 45 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, which were renewable automatically for successive terms of three years from 8 December 2012, 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. The Company has issued a new letter of appointment to each of the independent non-executive Directors of the Company in the current year for another term of three years commencing from 8 December 2012, unless terminated by either party giving to the other no less than three months prior notice in writing.

The current term of appointment of the non-executive Director of the Company commenced on 27 April 2012, being the date on which he was re-elected as a non-executive Director at the annual general meeting of the Company held on the same day, and will continue for a period not exceeding three years.

All the Directors are subject to retirement by rotation and re-election pursuant to the Articles.

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 subsidiaries was a party during the year under review.

Directors' and chief executives' interests and short positions in shares and underlying shares and debentures

As at 31 December 2012 and 21 January 2013, the interests of the Directors and chief executive of the Company in shares of the Company, as recorded in the register required to be kept by the Company pursuant to the Companies Act (Chapter 50) of Singapore (the "Companies Act"), the Listing Manual (the "Listing Manual") of Singapore Exchange Securities Trading Limited (the "SGX-ST") and Section 352 of the Securities and Future Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited ("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:

Number of ordinary shares interested				
Name of Directors	Personal interests	Corporate interests	Total interest	Approximate percentage# of the Company's issued share capital
Mr. Liu Xingxu	600,000	348,307,000 (Note (a))	348,907,000	34.89%
Ms. Yan Yunhua	300,000	297,734,000 (Note (b))	298,034,000	29.80%
Mr. Ong Kian Guan	100,000	–	100,000	0.01%

The percentage represents the number of ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2012 and 21 January 2013.

Notes:

(a) These shares were held by Pioneer Top Holdings Limited ("Pioneer Top"). Mr. Liu Xingxu beneficially owned approximately 42% of equity interest in Pioneer Top and held the remaining approximately 58% of equity interest in Pioneer Top in trust for seven beneficiaries (including Mr. Li Buwen) under a trust agreement. 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) These shares were held by Go Power Investments Limited ("Go Power"). Ms. Yan Yunhua beneficially owned approximately 12.74% of equity interest in Go Power and held approximately 87.26% of the equity interest in Go Power in trust for a total of 1,463 beneficiaries under a trust agreement. 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.

Save as disclosed above, as at 31 December 2012 and 21 January 2013, none of the Directors and chief executives 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 the Companies Act, the Listing Manual and Section 352 of the SFO or which has been notified to the Company and the SEHK pursuant to the Model Code.

Interests of Directors and supervisors in competing businesses

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 and/or the Listing Manual.

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' interests in shares and underlying shares and debentures

As at 31 December 2012 and 21 January 2013, the following parties had interests of 5% or more in the issued shares and underlying shares of the Company according to the register of interests required to be kept by the Company pursuant to the Companies Act, the Listing Manual and Section 336 of the SFO:

Long positions:

Name of substantial shareholders	Capacity	Number of issued ordinary shares interested	Number of underlying shares upon conversion of the convertible bonds	Total interest	Percentage of shares/ underlying shares over the Company's issued share capital
Pioneer Top (Note (a))	Beneficial owner	348,307,000	–	348,307,000	34.83%*
Go Power (Note (b))	Beneficial owner	297,734,000	–	297,734,000	29.77%*
Nitro Capital Limited ("Nitro") (Note (c))	Beneficial owner	–	176,000,000	176,000,000	14.97%**

* The percentage represents the number of issued ordinary shares interested divided by the number of the Company's issued shares as at 31 December 2012 and 21 January 2013.

** The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 31 December 2012 and 21 January 2013, as enlarged by the number of shares supposed to be issued after full conversion of the convertible bonds.

Notes:

(a) Pioneer Top is an investment holding company established in the British Virgin Islands (the "BVI"). Mr. Liu Xingxu beneficially owned approximately 42% of the equity interest in Pioneer Top, and held the remaining approximately 58% of the equity interest in Pioneer Top in trust for seven beneficiaries under a trust agreement, 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. Such interest held by Pioneer Top has also been disclosed as the interest of Mr. Liu Xingxu in the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures".

(b) Go Power is an investment holding company established in the BVI. Ms. Yan Yunhua beneficially owned approximately 12.74% of the equity interest in Go Power and held approximately 87.26% of the equity interest in Go Power in trust for a total of 1,463 beneficiaries under a 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. Such interest held by Go Power has also been disclosed as the interest of Ms. Yan Yunhua in the above section headed "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures".

(c) Nitro is an investment holding company established in Cayman Islands and is a wholly-owned subsidiary of Primavera Capital (Cayman) Fund I L.P..

Save as disclosed above, as at 31 December 2012 and 21 January 2013, no person, other than the Directors of the Company whose interests are set out in the section headed "Directors' and chief executives' interests and short positions in shares and underlying shares and debentures" above, had an interest or a short position in the shares or underlying shares of the Company that was recorded in the register maintained by the Company pursuant to the Companies Act, the Listing Manual and Section 336 of the SFO.

Continuing connected transactions

During the year, the Group had the following continuing connected transactions and has complied with the disclosure requirements of Chapter 14A of the Listing Rules and the Listing Manual.

Mr. Liu Xingxu, Ms. Yan Yunhua and Mr. Li Buwen currently hold an aggregate of approximately 10.6% interest in Henan Xinlianxin Chemicals Group Co., Ltd. ("XLX Chem"), which is the largest shareholder of 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 Manual in Singapore.

Non-exempt continuing connected transactions

(i) Utilities Supply Agreement

The Group entered into the Utilities Supply Agreement on 16 November 2012 with XLX Chem Group, pursuant to which the Group has agreed to supply water, electricity and steam to XLX Chem Group. The agreement has a term commencing from 16 November 2012 up to and including 31 December 2014. The Group has set the annual cap for the amount received by the Group from XLX Chem Group under the agreement at RMB18,000,000 (approximately HK$22,375,080) for the financial year ended 31 December 2012.

For the year ended 31 December 2012, the aggregate amount received by the Group from XLX Chem Group amounted to RMB11,252,000 and has been accounted for as other income in the Group's consolidated statement of comprehensive income.

(ii) Equipment Purchase Agreement

The Group entered into the Equipment Purchase Agreement on 16 November 2012 with XLX Chem Group, pursuant to which XLX Chem Group has agreed to supply equipment, including pipes, containers and high-pressure containers, to the Group for production. The agreement has a term commencing from 16 November 2012 up to and including 31 December 2014. The Group has set the annual cap for the amount paid by the Group to XLX Chem Group for sourcing of equipment under the agreement at RMB15,000,000 (approximately HK$18,645,900) for the financial year ended 31 December 2012.

For the year ended 31 December 2012, the aggregate amount paid by the Group for the sourcing of equipment was RMB11,495,000 which has been included in spare parts inventories in the consolidated statement of financial position.

(iii) Lifting Services Agreement

The Group entered into the Lifting Services Agreement on 16 November 2012 with XLX Chem Group, pursuant to which XLX Chem Group has agreed to provide machinery and equipment (on an as-needed basis) to be used for providing lifting services to the Group for the production operations. The agreement has a term commencing from 16 November 2012 up to and including 31 December 2014. The Group has set the annual cap for the service expenses paid by the Group to XLX Chem Group under the agreement at RMB7,000,000 (approximately HK$8,701,420) for the financial year ended 31 December 2012.

The service expenses paid by the Group to XLX Chem Group under this agreement amounted to approximately RMB3,715,000 for the year ended 31 December 2012 and have been accounted for as cost of sales in the consolidated statement of comprehensive income.

(iv) Accommodation and Catering Agreements

The Group entered into the General Accommodation and Catering Services Agreement on 16 November 2012 with an associate of XLX Chem Group, pursuant to which the associate of XLX Chem Group has agreed to provide accommodation and catering services to the Group for general staff and guests located in Kokichi Town, Xinjiang City of Henan Province. On the same day, the Group also entered into the Training Accommodation and Catering Agreement with XLX Chem Group, pursuant to which XLX Chem Group has agreed to provide accommodation and catering services to the Group for its staff undergoing training in Huixian City of Henan Province. These agreements have a term commencing from 16 November 2012 up to and including 31 December 2014. The Group has set the annual cap for the service expenses paid by the Group under these agreements at RMB10,000,000 (approximately HK$12,430,600) for the financial year ended 31 December 2012.

The service expenses paid by the Group under these agreements amounted to approximately RMB5,121,000 for the year ended 31 December 2012 and have been accounted for as general and administrative expenses in the consolidated statement of comprehensive income.

The independent non-executive Directors of the Company 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 to or 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.

Ernst & Young LLP, the Company's auditor, were engaged to report on the Group's continuing connected transactions in accordance with International Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued an unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Hong Kong Stock Exchange.

Bank loans and other borrowings

Details of the bank loans and other borrowings of the Group are set out in note 30 to the financial statements.

Short-term bond payable

Details of the short-term bond payable of the Group are set out in note 31 to the financial statements.

Corporate governance

The Company is committed to maintaining a high 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 49 to 66 of this annual report.

Subsidiaries

Details of the Company's subsidiaries are set out in note 20 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 and at least 10% of the Company's total issued share capital was held by the public in Singapore as at the date of this report.

Responsibility of Directors on financial statements

The Companies Act 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 the 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 auditor's 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 auditor's report on the annual financial statements of the Company before their submission to the board of directors;

- Reviews the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditor;

- Meets with the external auditor, 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 auditor;

- Reviews the nature and extent of non-audit services provided by the external auditor;

- Recommends to the board of directors the external auditor to be nominated, approves the compensation of the external auditor, 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 auditor of the Company, is satisfied that the nature and extent of such services would not affect the independence of the external auditor. The AC has also conducted a review of interested person transactions.

The AC convened six meetings during the year. The attendance record, on a named basis, at these meetings, is disclosed in the Corporate Governance Report. The AC has also met with the Company's internal and external auditors, without the presence of the Company's management, once during the year under review.

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

Auditor

Ernst & Young LLP have expressed their willingness to accept re-appointment as the auditor of the Company.

On behalf of the board of directors:

Liu Xingxu
Director

Yan Yunhua
Director

25 February 2013

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 the 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 2012 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

25 February 2013

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 subsidiaries (together, the "Group") set out on pages 83 to 155, which comprise the consolidated statement of financial position of the Group and the statement of financial position of the Company as at 31 December 2012, the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows of the Group and the statement of changes in equity of the Company 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, Chapter 50 (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.

Auditor's 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 auditor's 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 auditor considers internal control relevant to the entity's preparation of 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.

Independent Auditor's Report

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 2012 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
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25 February 2013

Consolidated Statement of Comprehensive Income

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	6	3,945,584	3,688,233
Cost of sales		(3,225,942)	(3,181,860)
Gross profit		719,642	506,373
Other income and gains	6	29,080	23,986
Selling and distribution expenses		(69,462)	(70,500)
General and administrative expenses		(202,493)	(136,059)
Other expenses		(22,387)	(20,025)
Finance costs	8	(82,359)	(78,930)
PROFIT BEFORE TAX	7	372,021	224,845
Income tax expense	11	(61,020)	(44,337)
Profit for the year	12	311,001	180,508
OTHER COMPREHENSIVE INCOME			
Available-for-sale investment:			
Change in fair value		(1,004)	(16,073)
Reclassification adjustment for impairment loss included in profit or loss		1,004	16,073
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		311,001	180,508
Profit attributable to:			
Owners of the parent		311,121	180,508
Non-controlling interest		(120)	–
		311,001	180,508
Total comprehensive income attributable to:			
Owners of the parent		311,121	180,508
Non-controlling interest		(120)	–
		311,001	180,508
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (RMB cents per share)			
Basic and diluted	14	26.46	17.96

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

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	15	3,019,025	2,542,168
Prepaid land lease payments	16	175,290	89,165
Goodwill	17	6,950	6,950
Coal mining right	18	41,955	41,763
Available-for-sale investment	19	7,500	–
Deferred tax assets	33	4,706	–
Prepayments for purchases of items of plant and equipment	23	721,626	216,822
Total non-current assets		3,977,052	2,896,868
CURRENT ASSETS			
Due from a related company	25	1,760	–
Available-for-sale investment	19	4,701	5,705
Inventories	21	432,366	593,114
Trade receivables	22	15,520	28,725
Bills receivable	22	1,740	2,050
Prepayments	23	140,630	116,533
Deposits and other receivables	23	49,080	13,339
Income tax recoverable		3,858	7,263
Pledged deposits	24, 27	12,900	10,000
Cash and cash equivalents	24	477,610	514,098
Total current assets		1,140,165	1,290,827
Total assets		5,117,217	4,187,695

Consolidated Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Due to related companies	25	135	163
Trade payables	26	110,773	120,843
Bills payable	27	25,800	–
Accruals and other payables	28	422,437	336,373
Income tax payable		4	864
Deferred grants	29	3,596	3,465
Interest-bearing bank and other borrowings	30	172,000	541,000
Short-term bond payable	31	300,000	–
Total current liabilities		1,034,745	1,002,708
Net current assets		105,420	288,119
TOTAL ASSETS LESS CURRENT LIABILITIES		4,082,472	3,184,987
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	1,679,485	1,067,091
Deferred grants	29	23,474	–
Deferred tax liabilities	33	51,081	56,219
Total non-current liabilities		1,754,040	1,123,310
Total liabilities		2,788,785	2,126,018
Net assets		2,328,432	2,061,677
Equity attributable to owners of the parent			
Issued capital	34	836,671	836,671
Convertible bonds	32	322,436	321,996
Statutory reserve fund	35	167,873	133,655
Retained profits		931,222	732,355
Proposed final dividend	13	63,000	37,000
		2,321,202	2,061,677
Non-controlling interest		7,230	–
Total equity		2,328,432	2,061,677
Total equity and liabilities		5,117,217	4,187,695

Statements of Changes in Equity

Year ended 31 December 2012

Group

	Notes	Issued capital (note 34) RMB'000	Convertible bonds (note 32) RMB'000	Available-for-sale investment revaluation reserve RMB'000	Statutory reserve fund (note 35) RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
		Attributable to owners of the Company								
At 1 January 2011		836,671	–	–	110,678	612,141	30,000	1,589,490	–	1,589,490
Profit for the year		–	–	–	–	180,508	–	180,508	–	180,508
Other comprehensive income for the year:										
Change in fair value of an available-for-sale investment		–	–	–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	180,508	–	180,508	–	180,508
Transfer to statutory reserve fund	35	–	–	–	22,977	(22,977)	–	–	–	–
2010 final dividend declared		–	–	–	–	–	(30,317)	(30,317)	–	(30,317)
Issue of convertible bonds	32	–	324,366	–	–	–	–	324,366	–	324,366
Convertible bonds issue expenses	32	–	(2,370)	–	–	–	–	(2,370)	–	(2,370)
Transfer from retained profits to proposed 2010 final dividend		–	–	–	–	(317)	317	–	–	–
Proposed 2011 final dividend	13	–	–	–	–	(37,000)	37,000	–	–	–
At 31 December 2011		836,671	321,996	–	133,655	732,355	37,000	2,061,677	–	2,061,677
At 1 January 2012		836,671	321,996	–	133,655	732,355	37,000	2,061,677	–	2,061,677
Profit for the year		–	–	–	–	311,121	–	311,121	(120)	311,001
Other comprehensive income for the year:										
Change in fair value of an available-for-sale investment		–	–	–	–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	–	311,121	–	311,121	(120)	311,001
Incorporation of a subsidiary		–	–	–	–	–	–	–	7,350	7,350
Transfer to statutory reserve fund	35	–	–	–	34,218	(34,218)	–	–	–	–
2011 final dividend declared		–	–	–	–	–	(37,000)	(37,000)	–	(37,000)
Convertible bonds interests	32	–	15,036	–	–	(15,036)	–	–	–	–
Payment of convertible bonds interests		–	(14,596)	–	–	–	–	(14,596)	–	(14,596)
Proposed 2012 final dividend	13	–	–	–	–	(63,000)	63,000	–	–	–
At 31 December 2012		836,671	322,436	–	167,873	931,222	63,000	2,321,202	7,230	2,328,432

Company

	Notes	Issued capital (note 34) RMB'000	Convertible bonds (note 32) RMB'000	Available-for-sale investment revaluation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total equity RMB'000
At 1 January 2011		836,671	–	–	2,718	30,000	869,389
Profit for the year		–	–	–	35,576	–	35,576
Other comprehensive income for the year							
Change in fair value of an available-for-sale investment		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	35,576	–	35,576
2010 final dividend declared		–	–	–	–	(30,317)	(30,317)
Issue of convertible bonds	32	–	324,366	–	–	–	324,366
Convertible bonds issue expenses	32	–	(2,370)	–	–	–	(2,370)
Transfer from retained profits to proposed 2010 final dividend		–	–	–	(317)	317	–
Proposed 2011 final dividend	13	–	–	–	(37,000)	37,000	–
At 31 December 2011		836,671	321,996	–	977	37,000	1,196,644
At 1 January 2012		836,671	321,996	–	977	37,000	1,196,644
Profit for the year		–	–	–	77,677	–	77,677
Other comprehensive income for the year							
Change in fair value of an available-for-sale investment		–	–	–	–	–	–
Total comprehensive income for the year		–	–	–	77,677	–	77,677
2011 final dividend declared		–	–	–	–	(37,000)	(37,000)
Convertible bonds interests	32	–	15,036	–	(15,036)	–	–
Payment of convertible bonds interests		–	(14,596)	–	–	–	(14,596)
Proposed 2012 final dividend	13	–	–	–	(63,000)	63,000	–
At 31 December 2012		836,671	322,436	–	618	63,000	1,222,725

The difference between the proposed and declared 2010 final dividend of RMB317,000 represented the exchange difference arising from the depreciation of the Renminbi against the Singapore dollar which was realised upon payment and was debited to the retained profits as at 31 December 2011.

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		372,021	224,845
Adjustments for:			
Amortisation of prepaid land lease payments	7	3,350	2,166
Amortisation of coal mining right	7	1,568	138
Depreciation of property, plant and equipment	7	178,866	172,100
Loss on disposal of items of property, plant and equipment	7	10,146	2,182
Amortisation of deferred grants	6	(1,095)	(495)
Dividend income from an available-for-sale investment	6	–	(720)
Impairment loss of an available-for-sale investment	7	1,004	16,073
Write-down of inventories to net realisable value	7	5,410	–
Write-off of trade receivables	7	43	–
Interest income	6	(4,463)	(1,596)
Finance costs	8	82,359	78,930
		649,209	493,623
Decrease/(increase) in inventories		155,338	(237,755)
Decrease in trade and bills receivables		13,472	7,633
Increase in prepayments		(22,371)	(39,782)
Increase in deposits and other receivables		(35,741)	(2,923)
Net change in balances with related companies		(1,788)	(560)
Increase in trade and bills payables		15,730	43,191
Increase in accruals and other payables		40,816	24,207
Cash flows generated from operations		814,665	287,634
Government grants received	29	24,700	–
Interest paid	37	(110,118)	(85,767)
Interest received		4,463	1,596
Tax paid		(68,319)	(23,483)
Net cash flows from operating activities		665,391	179,980

Consolidated Statement of Cash Flows

Year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of items of property, plant and equipment		247	2,808
Purchases of items of property, plant and equipment		(1,189,114)	(479,025)
Purchases of land use rights	16	–	(1,603)
Additions of coal mining right	18	(1,760)	–
Investment in an available-for-sale investment	19	(7,500)	–
Dividend received from an available-for-sale investment	6	–	720
Acquisition of a subsidiary	36	–	(39,064)
Decrease/(increase) in pledged time deposits		(2,900)	8,780
Net cash flows used in investing activities		(1,201,027)	(507,384)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid on ordinary shares		(37,000)	(30,317)
Proceeds from issue of convertible bonds	32	–	324,366
Payment of convertible bonds interests		(14,596)	–
Proceeds from issue of a short-term bond	31	300,000	–
Proceeds from loans and borrowings		992,212	1,040,000
Repayments of loans and borrowings		(748,818)	(655,320)
Capital contribution by a non-controlling interest		7,350	–
Net cash flows from financing activities		499,148	678,729
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(36,488)	351,325
Cash and cash equivalents at beginning of year		514,098	162,773
Cash and cash equivalents at end of year		477,610	514,098
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash at banks and on hand	24	477,610	470,466
Non-pledged time deposits with original maturity of less than three months when acquired	24	–	43,632
Cash and cash equivalents as stated in the consolidated statement of financial position		477,610	514,098

Statement of Financial Position

31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
ASSETS			
NON-CURRENT ASSETS			
Investments in subsidiaries	20	1,100,000	1,080,000
CURRENT ASSETS			
Available-for-sale investment	19	4,701	5,705
Due from a subsidiary	20	132,938	84,061
Prepayments	23	318	317
Cash and cash equivalents	24	4,587	45,015
Total current assets		142,544	135,098
Total assets		1,242,544	1,215,098
EQUITY AND LIABILITIES			
CURRENT LIABILITIES			
Accruals		19,819	18,454
Net current assets		122,725	116,644
Net assets		1,222,725	1,196,644
Equity attributable to owners of the parent			
Issued capital	34	836,671	836,671
Convertible bonds	32	322,436	321,996
Retained profits	35	618	977
Proposed final dividend	13	63,000	37,000
Total equity		1,222,725	1,196,644
Total equity and liabilities		1,242,544	1,215,098

1. Corporate Information

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are dually primary-listed on the Singapore Exchange Securities Trading Limited (the "SGX-ST") and The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at 80 Robinson Road, #02-00, Singapore 068898. The principal place of business of the Group is located at Xinxiang High Technology Development Zone (Xiaoji Town), Henan Province, the People's Republic of China (the "PRC"). The principal activity of the Company consists of investment holding. The principal activities of the Company's subsidiaries are disclosed in note 20 to the financial statements.

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 for a current available-for-sale investment, which has been measured at fair value. 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 2012.

- Amendments to SFRS 101 *Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
- Amendments to SFRS 12 *Deferred Tax: Recovery of Underlying Assets*
- Amendments to SFRS 107 *Disclosures – Transfers of Financial Assets*

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 interpretation that have been issued but not yet effective:

Description	Effective for annual periods beginning on or after
Amendments to SFRS 1 *Presentation of Items of Other Comprehensive Income*	1 July 2012
Revised SFRS 19 *Employee Benefits*	1 January 2013
SFRS 113 *Fair Value Measurement*	1 January 2013
Amendments to SFRS 101 – *Government Loans*	1 January 2013
Amendments to SFRS 107 *Disclosures – Offsetting Financial Assets and Financial Liabilities*	1 January 2013
Improvements to SFRSs 2012	1 January 2013
– Amendment to SFRS 1 *Presentation of Financial Statements*	1 January 2013
– Amendment to SFRS 16 *Property, Plant and Equipment*	1 January 2013
– Amendment to SFRS 32 *Financial Instruments: Presentation*	1 January 2013
– Amendments to SFRS 34 *Interim Financial Reporting*	1 January 2013
– Amendments to SFRS 101 *First-time Adoption of International Financial Reporting Standards*	1 January 2013
INT SFRS 120 *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Revised SFRS 27 ***Separate Financial Statements***	1 January 2014
Revised SFRS 28 *Investments in Associates and Joint Ventures*	1 January 2014
SFRS 110 *Consolidated Financial Statements*	1 January 2014
SFRS 111 *Joint Arrangements*	1 January 2014
SFRS 112 *Disclosure of Interests in Other Entities*	1 January 2014
Amendments to SFRS 32 *Offsetting Financial Assets and Financial Liabilities*	1 January 2014
Amendments to the transition guidance of SFRS 110 *Consolidated Financial Statements*, SFRS 111 *Joint Arrangements* and SFRS 112 *Disclosures of Interests in Other Entities*	1 January 2014
Amendments to SFRS 110, SFRS 112 and SFRS 27 *Investment Entities*	1 January 2014

Except for the Amendments to SFRS 1 and SFRS 112, the directors expect that the adoption of the other standards and interpretation above will have no material impact on the financial statements in the period of initial application. The nature of the impending changes in accounting policy on adoption of the Amendments to SFRS 1 and SFRS 112 are described below.

Amendments to SFRS 1 Presentation of Items of Other Comprehensive Income

The Amendments to SFRS 1 *Presentation of Items of Other Comprehensive Income* ("OCI") is effective for financial periods beginning on or after 1 July 2012.

The Amendments to SFRS 1 change the grouping of items presented in OCI. Items that could be reclassified to profit or loss at a future point in time would be presented separately from items which will never be reclassified. As the Amendments only affect the presentations of items that are already recognised in OCI, the Group does not expect any impact on its financial position or performance upon adoption of this standard.

2.3 Standards Issued but not yet Effective (continued)

SFRS 112 Disclosure of Interests in Other Entities

SFRS 112 *Disclosure of Interests in Other Entities* is effective for financial periods beginning on or after 1 January 2014.

SFRS 112 is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. SFRS 112 requires an entity to disclose information that helps users of its financial statements to evaluate the nature and risks associated with its interests in other entities and the effects of those interests on its financial statements. As this is a disclosure standard, it will have no impact on the financial position and financial performance of the Group when implemented in 2014.

3. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at the end of the reporting period. The financial statements of the subsidiaries used in the preparation of the consolidated financial statements are prepared for the same reporting date as the Company. Consistent accounting policies are applied to like transactions and events in similar circumstances.

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

Consolidation of the subsidiaries in the PRC is based on the subsidiaries' 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 subsidiaries, prepared for PRC financial reporting purposes. In accordance with the relevant laws and regulations, profits available for distribution by the PRC subsidiaries are based on the amounts stated in the PRC statutory financial statements.

Business combinations

Business combinations are accounted for using the acquisition method. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. For items that are traded in active markets, the fair value is determined by reference to quoted market prices. For items with no active market, the fair value is determined using appropriate valuation techniques, such as the discounted cash flow analysis. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset and liability, will be recognised in accordance with SFRS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it is not remeasured until it is finally settled within equity.

3. Summary of Significant Accounting Policies (continued)

Business combinations (continued)

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

The Group elects for each individual business combination, whether non-controlling interest in the acquiree (if any) is recognised on the acquisition date at fair value, or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Any excess of the sum of the fair value of the consideration transferred in the business combination, the amount of non-controlling interest in the acquiree (if any), and the fair value of the Group's previously held equity interest in the acquiree (if any), over the net fair value of the acquiree's identifiable assets and liabilities is recorded as goodwill. The accounting policy for goodwill is set out in "*Goodwill*" below. In instances where the latter amount exceeds the former, the excess is recognised as gain on bargain purchase in profit or loss on the acquisition date.

Transactions with non-controlling interests

Non-controlling interest represents the equity in subsidiaries not attributable, directly or indirectly, to owners of the parent, and are presented separately in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to owners of the parent.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the parent.

Functional currency

The Group's principal operations are conducted in the PRC. The directors have 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 in the respective functional currencies of the Company and its subsidiaries and are recorded on initial recognition in the functional currencies 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 rates at the date when the fair value was determined.

3. Summary of Significant Accounting Policies (continued)

Foreign currency transactions (continued)

Exchange differences arising on the settlement of monetary items or on translating monetary items at the end of the reporting period are recognised in 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.

For consolidation purpose, the assets and liabilities of foreign operations are translated into RMB at the rate of exchange ruling at the end of the reporting period and their profit or loss are translated at the exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

In the case of a partial disposal without loss of control of a subsidiary that includes a foreign operation, the proportionate share of the cumulative amount of the exchange differences is re-attributed to non-controlling interest and is not recognised in profit or loss. For partial disposals of associates or jointly-controlled entities that are foreign operations, the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 subsidiaries 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.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and other parties have an interest.

The joint venture agreement between the ventures stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits or losses from the joint venture's operations and any distributions of surplus assets are shared by the ventures, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group/Company has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group/Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

3. Summary of Significant Accounting Policies (continued)

Joint ventures (continued)

(c) an associate, if the Group/Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with SFRS 39, if the Group/Company holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Related parties

A related party is defined as follows:

(a) A person or a close member of that person's family is related to the Group and the Company if that person:

- (i) has control or joint control over the Company;
- (ii) has significant influence over the Company; or
- (iii) is a member of the key management personnel of the Group or the Company or of a parent of the Company.

(b) An entity is related to the Group and the Company if any of the following conditions applies:

- (i) the entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) both entities are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company. If the Company is itself such a plan, the sponsoring employers are also related to the Company;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

3. Summary of Significant Accounting Policies (continued)

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 depreciates them accordingly.

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 including 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, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds 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.

3. Summary of Significant Accounting Policies (continued)

Coal mining right

Coal mining right is stated at cost less accumulated amortisation and any impairment losses. The coal mining right is amortised on the straight-line basis over its estimated useful life of 27 years. The useful life of the coal mining right is reviewed annually in accordance with the production plans of the Group and the proven and probable reserves of the mine. The coal mining right is written off to profit or loss if the coal mining property is abandoned.

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 the straight-line basis over the lease terms of 50 years.

The amortisation period and method are reviewed at each financial year end. The amortisation expense is recognised in profit or loss.

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 an annual impairment testing 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, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations which are prepared separately for each of the Group's cash-generating units to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses 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.

3. Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets (continued)

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 a revalued amount, in which case the reversal is treated as a revaluation increase.

Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

The cash-generating unit to which goodwill has been allocated is tested for impairment annually and whenever there is an indication that the cash-generating unit may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised in profit or loss. Impairment losses recognised for goodwill are not reversed in subsequent periods.

Where goodwill forms part of a cash-generating unit and part of the operation within that cash-generating unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in this circumstance is measured based on the relative fair values of the operations disposed of and the portion of the cash-generating unit retained.

Goodwill and fair value adjustments arising on the acquisition of foreign operation on or after 1 January 2005 are treated as assets and liabilities of the foreign operations and are recorded in the functional currency of the foreign operations and translated in accordance with the accounting policy set out in "*Foreign currency transactions*" above.

Goodwill and fair value adjustments which arose on acquisitions of foreign operation before 1 January 2005 are deemed to be assets and liabilities of the Company and are recorded in RMB at the rates prevailing at the date of acquisition.

3. Summary of Significant Accounting Policies (continued)

Financial assets

Initial recognition and measurement

Financial assets are recognised 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.

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 investments 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 loss.

De-recognition

A financial asset is derecognised where the contractual right to receive cash flows from the asset has expired. On de-recognition 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.

Regular way purchase or sale of a financial asset

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 each reporting date whether there is any objective evidence that a financial asset is impaired.

(a) Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses 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 financial assets 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 impaired financial assets 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.

(b) 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 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)

(c) Available-for-sale financial assets

In the case of equity investments classified as available-for-sale, objective evidence of impairment includes (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 cost. "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 repayment 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; increases 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, 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 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.

All financial liabilities are recognised initially at fair value plus in the case of financial liabilities not at fair value through profit or loss, 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 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. 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.

The Group has not designed any financial liabilities upon initial recognition at fair value through 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 profit or loss when the liabilities are derecognised, and through the amortisation process.

De-recognition

A financial liability is de-recognised 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 de-recognition 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.

Convertible bonds

Convertible bonds issued by the Company are recognised and included in shareholders' equity based on the terms of the contract. Transaction costs are deducted from equity, net of associated income tax. The carrying amount of the convertible bonds is not remeasured in subsequent years.

Short-term bond payable

Short-term bond payable is classified under loans and borrowings and recognised initially at fair value. After initial recognition, short-term bond payable is subsequently measured at cost because the effect of discounting would be immaterial as its term is relatively short.

3. Summary of Significant Accounting Policies (continued)

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 into 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, and assets similar in nature to cash, which are not restricted as to use.

Inventories

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

- Raw materials: purchase costs on a weighted average basis.

- Finished goods and work-in-progress: costs of direct materials and labour 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 resources embodying economic benefits 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.

3. Summary of Significant Accounting Policies (continued)

Government grants

Government grants are received from the local PRC government on a discretionary basis as determined by the government. They are recognised at their 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 as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. 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.

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 asset for its intended use or sale are in progress and the expenditures and borrowing costs are incurred. Borrowing costs are capitalised until the assets are 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 subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are 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 subsidiaries' employees.

The Company makes contributions to the Central Provident Fund Scheme in Singapore, a defined contribution pension scheme. Contributions to the defined contribution pension scheme 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 operating leases net of any incentives received from lessor are charged to profit or loss on the straight-line basis over the lease terms.

3. Summary of Significant Accounting Policies (continued)

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, regardless of when the payment is made. Revenue is measured at the fair value of consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(a) **Sale of goods**

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

(b) **Interest income**

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

(c) **Dividend income**

Dividend income is recognised when the Group's right to receive payment is established.

(d) **Subsidy income**

Subsidy income represents subsidies received from the government and is recognised upon cash receipt and when all the relating conditions have been fulfilled.

(e) **Amortisation of deferred grants**

Deferred grants are amortised and credited to profit or loss by equal annual instalments over the expected useful life of the relevant assets the grants are intended to compensate.

Income taxes

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 at the end of the 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 relates to items 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.

3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

Deferred tax

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

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

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- In respect of taxable 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 and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference 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 the accounting profit nor taxable profit or loss; and

- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in 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 end of the reporting period.

3. Summary of Significant Accounting Policies (continued)

Income taxes (continued)

Deferred tax (continued)

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, would be recognised subsequently if new information about facts and circumstances changed. The adjustment would either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it incurred during the measurement period or in profit or loss.

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 their products and the segment results are reported directly 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 issuance 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.

3. Summary of Significant Accounting Policies (continued)

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.

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 consolidated 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 require a material adjustment to the carrying amount of the asset or liability affected in the future periods.

4. Significant Accounting Estimates and Judgements (continued)

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 consolidated 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 income tax recoverable, payable, deferred tax assets and deferred tax liabilities at 31 December 2012 were RMB3,858,000, RMB4,000, RMB4,706,000 and RMB51,081,000, respectively (2011: income tax recoverable, payable and deferred tax liabilities were RMB7,263,000, RMB864,000 and RMB56,219,000, respectively).

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, 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. The Group based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2012 was HK$6,950,000 (2011: HK$6,950,000). Further details are given in note 17.

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 lives of the assets. Management estimates the useful lives of the production lines to be within 8 to 15 years. Changes in the expected level of usage and technological developments could impact the economic useful lives of the plant and machinery and therefore depreciation charges could be changed in line with revisions to the expected economic useful lives. The carrying amount of the Group's plant and machinery at 31 December 2012 was RMB1,537,039,000 (2011: RMB1,607,262,000).

4. Significant Accounting Estimates and Judgements (continued)

Key sources of estimation uncertainty (continued)

Impairment of an available-for-sale investment

The Group classifies a listed equity 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 2012, impairment loss of RMB1,004,000 has been recognised for this available-for-sale investment (2011: RMB16,073,000). The carrying amount of this available-for-sale investment was RMB4,701,000 (2011: RMB5,705,000).

Impairment of coal mining right

The carrying value of the coal mining right is reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable in accordance with the accounting policy for the impairment of non-financial assets in the section of summary of significant accounting policies. The recoverable amount of the coal mining right, or, where appropriate, the cash-generating unit to which it belongs, is calculated as the higher of its fair value less costs to sell and value in use. Estimating the value in use requires the Group to estimate the expected future cash flows from the cash-generating unit and to choose a suitable discount rate in order to calculate the present value of those cash flows. At 31 December 2012, no impairment loss has been recognised for the coal mining right. The carrying amount of the coal mining right at 31 December 2012 was RMB41,955,000 (2011: RMB41,763,000).

Coal mine reserve

Engineering estimates of the Group's coal mine reserve are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before an estimated coal mine reserve can be designated as "proved" and "probable". Proved and probable coal mine reserve estimates are updated on regular intervals taking into recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of the proved and probable coal mine reserve also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related amortisation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining amortisation expenses and impairment loss. The capitalised cost of the coal mining right is amortised over the estimated useful life of the related coal mine reserve. The useful life is reviewed annually in accordance with the production of the plants of the Group and the proven and probable reserves of the coal mine. The carrying amount of the coal mining right at 31 December 2012 was RMB41,955,000 (2011: RMB41,763,000).

5. Operating Segment Information

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

(i) Urea

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

(ii) Compound fertiliser

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

(iii) Methanol

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

In addition to the three main operating segments, the Group is involved in the production of liquid ammonia and ammonia solution. In addition, as detailed in note 36 to the financial statements, in November 2011, the Group had acquired a subsidiary that is engaged in coal mining and the sale of coal. However, in the opinion of the directors, there were only limited operations in this subsidiary after the acquisition by the Group and the assets and liabilities were not material for the purpose of segment reporting. Accordingly, a separate operating segment for the coal mining business carried out by this subsidiary has not been presented.

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

5. Operating Segment Information (continued)

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), income taxes and other unallocated items, as explained below, are managed on a group basis and are not allocated to operating segments.

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

Allocation basis

Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise other income and gains, other expenses, selling and distribution expenses, general and administrative expenses, finance costs and income tax expense.

Group assets and liabilities cannot be directly attributable to individual segments as it is impracticable to allocate them to the segments. Except for the assets and liabilities of the newly acquired subsidiary in last year which were not material for the purpose of segment reporting, assets of the Group are utilised interchangeably between different segments and there is no reasonable basis to allocate liabilities of the Group between different segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by operating segments.

Geographical information

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

Information about a major customer

During the years ended 31 December 2012 and 2011, sales to the Group's major customer amounted to RMB244,647,000 (or 6.2% of the total sales) and RMB203,684,000 (or 5.5% of the total sales), respectively.

5. Operating Segment Information (continued)

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 2012	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	2,498,534	937,973	495,163	13,914	–	3,945,584
Intersegment sales	318,658	–	–	5,743	(324,401)	–
Total revenue	2,817,192	937,973	495,163	19,657	(324,401)	3,945,584
Segment profit	571,285	127,463	19,466	1,428	–	719,642
Interest income						4,463
Unallocated other income and gains						24,617
Unallocated expenses						(294,342)
Finance costs						(82,359)
Profit before tax						372,021
Income tax expense						(61,020)
Profit for the year						311,001
Other segment information:						
Write-off of trade receivables						43
Write-down of inventories to net realisable value						5,410
Impairment of an available-for-sale investment						1,004
Loss on disposal of items of property, plant and equipment						10,146
Depreciation of property, plant and equipment						178,866
Amortisation of prepaid land lease payments						3,350
Amortisation of coal mining right						1,568

5. Operating Segment Information (continued)

Group

Year ended 31 December 2011	Urea RMB'000	Compound fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	Total RMB'000
REVENUE						
Sales to external customers	2,409,012	849,236	422,480	7,505	–	3,688,233
Intersegment sales	283,255	–	–	12,832	(296,087)	–
Total revenue	2,692,267	849,236	422,480	20,337	(296,087)	3,688,233
Segment profit/(loss)	406,492	127,089	(27,114)	(94)	–	506,373
Interest income						1,596
Unallocated other income and gains						22,390
Unallocated expenses						(226,584)
Finance costs						(78,930)
Profit before tax						224,845
Income tax expense						(44,337)
Profit for the year						180,508
Other segment information:						
Impairment of an available-for-sale investment						16,073
Loss on disposal of items of property, plant and equipment						2,182
Depreciation of property, plant and equipment						172,100
Amortisation of prepaid land lease payments						2,166
Amortisation of coal mining right						138

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.

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

	2012 RMB'000	2011 RMB'000
Revenue		
Sale of goods	3,945,584	3,688,233

6. Revenue, Other Income and Gains (continued)

	2012 RMB'000	2011 RMB'000
Other income and gains		
Bank interest income	4,463	1,596
Dividend income from an available-for-sale investment	–	720
Net profit from sales of by-products	9,178	5,356
Service fee income from related parties	–	60
Amortisation of deferred grants (note 29)	1,095	495
Subsidy income	12,489	6,667
Penalty income	–	7,798
Others	1,855	1,294
	29,080	23,986

7. Profit Before Tax

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold #		3,225,942	3,181,860
Depreciation of property, plant and equipment	15	178,866	172,100
Amortisation of prepaid land lease payments	16	3,350	2,166
Amortisation of coal mining right	18	1,568	138
Minimum lease payments under operating leases:			
Land		1,313	1,410
Buildings		480	480
		1,793	1,890
Auditor's remuneration		1,659	1,480
Employee benefit expenses (including directors' remuneration (note 9)):			
Salaries and bonuses		198,555	139,889
Contributions to defined contribution plans		41,931	21,377
Welfare expenses		14,298	7,262
		254,784	168,528
Impairment of an available-for-sale investment *		1,004	16,073
Unrealised exchange loss, net *		706	1,095
Loss on disposal of items of property, plant and equipment *		10,146	2,182
Write-down of inventories to net realisable value	21	5,410	–
Write-off of trade receivables		43	–

7. Profit Before Tax (continued)

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

Included wages and salaries of RMB32,271,000 (2011: RMB25,624,000) disclosed under employee benefit expenses, depreciation charges of RMB154,523,000 (2011: RMB155,785,000) disclosed under depreciation and write-down of inventories to net realisable value of RMB5,410,000 (2011: Nil) disclosed above.

8. Finance Costs

The Group's finance costs are analysed as follows:

	2012 RMB'000	2011 RMB'000
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	90,311	79,848
Interest on bank loans, overdrafts and other loans, wholly repayable after five years	19,465	5,687
Interest on government loans	342	232
	110,118	85,767
Less: Interest capitalised (note 37)	(27,759)	(6,837)
	82,359	78,930

9. Directors' Remuneration

Details of directors' remuneration are as follows:

	2012 RMB'000	2011 RMB'000
Fees	800	800
Other emoluments:		
Salaries, allowances and benefits in kind	8,157	4,550
Pension scheme contributions	73	66
	8,230	4,616
	9,030	5,416

9. Directors' Remuneration (continued)

(a) *Independent non-executive directors*

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

	2012 RMB'000	2011 RMB'000
Ong Kian Guan	300	300
Li Shengxiao	250	250
Ong Wei Jin	250	250
	800	800

There were no other emoluments payable to the independent non-executive directors during the year ended 31 December 2012 (2011: Nil).

(b) *Executive directors and a non-executive director*

Year ended 31 December 2012	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses* RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Liu Xingxu	–	875	2,356	25	3,256
Yan Yunhua	–	696	1,767	24	2,487
Li Buwen	–	696	1,767	24	2,487
	–	2,267	5,890	73	8,230
Non-executive director:					
Lian Jie	–	–	–	–	–
	–	2,267	5,890	73	8,230

Year ended 31 December 2011	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses* RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:					
Liu Xingxu	–	877	911	22	1,810
Yan Yunhua	–	698	683	22	1,403
Li Buwen	–	698	683	22	1,403
	–	2,273	2,277	66	4,616
Non-executive director:					
Lian Jie	–	–	–	–	–
	–	2,273	2,277	66	4,616

* Performance related bonuses are based on the profit before tax of the Group for each financial year.

9. Directors' Remuneration (continued)

There were no arrangements under which a director waived or agreed to waive any remuneration during the year ended 31 December 2012 (2011: 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 (2011: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2011: two) non-director, highest paid employees for the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	1,038	1,280
Performance-related bonuses	420	145
Pension scheme contributions	35	45
	1,493	1,470

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

	2012	2011
Nil to RMB500,000	–	–
RMB500,001 to RMB1,000,000	2	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 at the rate of 17% (2011: 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 subsidiaries in Mainland China are subject to income tax at the rate of 25% (2011: 25%). Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", one of the subsidiaries 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. This 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, this subsidiary was exempted from income tax during the years ended 31 December 2007 and 2008, and had a 50% tax exemption for the three years ended 31 December 2009, 2010 and 2011 (i.e., 12.5%). During the current year, this subsidiary was awarded the New/High Tech Enterprise Award as recognition of its innovation and use of state-of-the-art equipment. This award brought this subsidiary a tax concession of a lower income tax rate (i.e., 15%) for the year ended 31 December 2012 and for the year ending 31 December 2013.

The major components of income tax expense for the financial years ended 31 December 2012 and 2011 are:

Group

	2012 RMB'000	2011 RMB'000
Current – PRC		
Charge for the year	64,941	32,621
Underprovision in respect of prior years	1,145	358
Deferred (note 33)	(5,066)	11,358
Total tax charge for the year	61,020	44,337

11. Income Tax (continued)

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

	2012 RMB'000	2011 RMB'000
Profit before tax	372,021	224,845
Tax at statutory tax rates	94,291	59,455
Expenses not deductible for tax	8,427	5,978
Effect of withholding tax at 5% on the distributable profits of the PRC subsidiary	–	11,388
Effect of a tax holiday	(40,312)	(32,655)
Adjustments in respect of current tax of previous periods	1,145	358
Recognition of deductible temporary differences previously not recognised	(2,618)	–
Others	87	(187)
Tax charge for the year at the effective tax rate	61,020	44,337

12. Profit Attributable to Owners of the Parent

The consolidated profit attributable to owners of the parent for the year ended 31 December 2012 includes a loss of RMB13,545,000 (2011: profit of RMB35,576,000) which has been dealt with in the financial statements of the Company.

13. Dividend

	2012 RMB'000	2011 RMB'000
Proposed final dividend – RMB6.30 cents (2011: RMB3.70 cents) per ordinary share	63,000	37,000

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 Ordinary Equity Holders of the Parent

The calculation of basic and diluted earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued) of 1,176,000,000 (2011: 1,005,304,000), as adjusted to reflect the convertible bonds issued in 2011.

The calculations of basic and diluted earnings per share are based on the following data:

	2012 RMB'000	2011 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent, used in the basic and diluted earnings per share calculation	311,121	180,508

	2012 Number of shares	2011 Number of shares
Shares		
Weighted average number of ordinary shares (inclusive of mandatorily convertible instruments issued during the year) for the purpose of calculating basic and diluted earnings per share	1,176,000,000	1,005,304,000

15. Property, Plant and Equipment

Group

31 December 2012

	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 31 December 2011 and 1 January 2012	277,876	386,757	2,182,184	75,688	21,750	282,690	3,226,945
Additions	2,303	18,231	31,954	6,215	5,986	692,628	757,317
Transfers	7,853	1,722	43,350	3,381	1,109	(57,415)	–
Transfers to prepaid land lease payments (note 16)	–	–	–	–	–	(91,201)	(91,201)
Disposals	–	(618)	(12,847)	(147)	(1,286)	–	(14,898)
At 31 December 2012	288,032	406,092	2,244,641	85,137	27,559	826,702	3,878,163
Accumulated depreciation:							
At 31 December 2011 and 1 January 2012	29,099	40,389	574,922	31,711	8,656	–	684,777
Depreciation charged for the year	12,291	13,718	136,163	12,774	3,920	–	178,866
Disposals	–	(144)	(3,483)	(116)	(762)	–	(4,505)
At 31 December 2012	41,390	53,963	707,602	44,369	11,814	–	859,138
Net carrying amount:							
At 31 December 2012	246,642	352,129	1,537,039	40,768	15,745	826,702	3,019,025

15. Property, Plant and Equipment (continued)

Group

31 December 2011

	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 2011	231,858	260,712	2,051,270	76,804	15,456	297,163	2,933,263
Additions	9,602	5,477	22,451	4,166	5,153	216,671	263,520
Acquisition of a subsidiary (note 36)	2,474	23,050	14,153	228	1,288	–	41,193
Transfers	34,124	98,158	104,068	(5,371)	165	(231,144)	–
Disposals	(182)	(640)	(9,758)	(139)	(312)	–	(11,031)
At 31 December 2011	277,876	386,757	2,182,184	75,688	21,750	282,690	3,226,945
Accumulated depreciation:							
At 1 January 2011	19,139	28,119	437,544	28,195	5,721	–	518,718
Depreciation charged for the year	9,989	12,392	142,919	3,616	3,184	–	172,100
Disposals	(29)	(122)	(5,541)	(100)	(249)	–	(6,041)
At 31 December 2011	29,099	40,389	574,922	31,711	8,656	–	684,777
Net carrying amount:							
At 31 December 2011	248,777	346,368	1,607,262	43,977	13,094	282,690	2,542,168

The Group's buildings with an aggregate net carrying amount of RMB246,642,000 (2011: RMB248,777,000) are situated in Mainland China.

16. Prepaid Land Lease Payments

Group

	Notes	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January		91,282	91,845
Additions		–	1,603
Transfer from construction in progress	15	91,201	–
Amortisation during the year	7	(3,350)	(2,166)
Carrying amount at 31 December		179,133	91,282
Current portion included in prepayments	23	(3,843)	(2,117)
Non-current portion		175,290	89,165

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 42 to 49 years (2011: from 43 to 47 years).

17. Goodwill

Group

	RMB'000
Cost at 1 January 2011	–
Acquisition of a subsidiary (note 36)	6,950
Cost and net carrying amount at 31 December 2011, 1 January 2012 and 31 December 2012	6,950
At 31 December 2012 and 31 December 2011:	
Cost	6,950
Accumulated impairment	–
Net carrying amount	6,950

17. Goodwill (continued)

Impairment testing of goodwill

Goodwill acquired through a business combination amounting to RMB6,950,000 (2011: RMB6,950,000) has been allocated to the coal mining cash-generating unit for impairment testing.

The recoverable amount of the coal mining cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by management covering a 20-year period. The cash flow projections are discounted using the discount rate of 9%.

Assumptions used in the value-in-use calculation

The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

(i) **Budgeted gross margin**

The basis used to determine the value assigned to the future gross margin is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

(ii) **Raw materials price inflation**

The basis used to determine the value assigned to raw materials price inflation is the forecast price indices during the budget year.

(iii) **Commodity price inflation**

The basis used to determine the value assigned to commodity price inflation is the expectation of future changes in the market.

(iv) **Discount rate**

The discount rate used is before tax and reflects specific risks relating to the relevant unit.

18. Coal Mining Right

Group

	RMB'000
31 December 2012	
Cost at 1 January 2012, net of accumulated amortisation	41,763
Additions	1,760
Amortisation provided during the year (note 7)	(1,568)
At 31 December 2012	41,955
At 31 December 2012:	
Cost	43,661
Accumulated amortisation	(1,706)
Net carrying amount	41,955
31 December 2011	
Cost at 1 January 2011, net of accumulated amortisation	–
Acquisition of a subsidiary (note 36)	41,901
Amortisation provided during the year (note 7)	(138)
At 31 December 2011	41,763
At 31 December 2011:	
Cost	41,901
Accumulated amortisation	(138)
Net carrying amount	41,763

19. Available-for-Sale Investments

	Group	
	2012	2011
	RMB'000	RMB'000
NON-CURRENT		
Unquoted equity investment, at cost:		
PRC	7,500	–
CURRENT		
Listed equity investment, at fair value:		
Singapore	4,701	5,705

	Company	
	2012	2011
	RMB'000	RMB'000
CURRENT		
Listed equity investment, at fair value:		
Singapore	4,701	5,705

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

During the year, the gross loss in respect of the available-for-sale investments recognised in other comprehensive income amounted to RMB1,004,000 (2011: RMB16,073,000). There was a significant decline in the market value of the listed equity investment during the year. The directors consider that such a decline indicates that the listed equity investment has been impaired and an impairment loss of RMB1,004,000 (2011: RMB16,073,000), which included a reclassification from other comprehensive income of RMB1,004,000 (2011: RMB16,073,000), has been recognised in profit or loss for the year. The listed equity investment was classified as a current asset because it is the intention of the directors of the Company to dispose of the investment in the forthcoming year. The market value of the listed equity investment at the date of approval of these financial statements was approximately RMB5,907,000.

During the year ended 31 December 2012, the Group made an investment of RMB7,500,000 in return for 15% of the unlisted registered capital of 瑪納斯縣碧源供水有限責任公司 ("Biyuan"). Biyuan was established to provide water supply and water treatment services and is currently in its startup phase. As at 31 December 2012, the investment in Biyuan with a carrying amount of RMB7,500,000 (2011: Nil) was stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose of it in the near future.

20. Investments in Subsidiaries

	Company 2012 RMB'000	2011 RMB'000
Unlisted shares, at cost	1,100,000	1,080,000

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	Place of registration and operations	Nominal value of registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Henan Xinlianxin Fertiliser Co., Ltd.* #	PRC/ Mainland China	RMB1,100,000,000 (2011: RMB1,080,000,000)	100% (2011: 100%)	–	Manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution
Henan Shoulashou Fertiliser Co., Ltd.#@	PRC/ Mainland China	RMB1,000,000	–	100% (2011: 100%)	Dormant
Xinjiang Xinlianxin Energy Chemical Co., Ltd.#@	PRC/ Mainland China	RMB350,000,000 (2011: RMB130,000,000)	–	100% (2011: 100%)	Investment holding
瑪納斯天利煤業有限責任公司 ("Tianli")#@	PRC/ Mainland China	RMB45,000,000	–	100% (2011: 100%)	Coal mining and sales of coal
河南農心肥業有限公司 ("Nongxin")#@	PRC/ Mainland China	RMB15,000,000	–	51% (2011: Nil)	Manufacturing and trading of compound fertiliser and related products

* The subsidiary is registered as a wholly-foreign-owned enterprise under PRC law.

@ These subsidiaries are established in the PRC and registered under PRC law.

The statutory audited financial statements of the subsidiaries for the year ended 31 December 2012 were not audited by Ernst & Young LLP, Singapore or another member firm of the Ernst & Young global network.

20. Investments in Subsidiaries (continued)

On 19 March 2012, the Group entered into an agreement with Sinoagric Chain Co., Ltd. (華農農資連鎖股份有限公司) to establish a joint venture, namely 河南農心肥業有限公司 ("Nongxin") for a period of fifty years, to manufacture and sell compound fertiliser and related products. Further details of this establishment are included in the Company's announcement dated 26 March 2012.

In 2011, the Group acquired 瑪納斯天利煤業有限責任公司 from an independent third party. Further details of this acquisition are included in note 36 to the financial statements.

21. Inventories

	Group	
	2012	2011
	RMB'000	RMB'000
Statement of financial position:		
Raw materials	243,444	363,830
Parts and spares	13,518	13,941
Work-in-progress	5,816	6,077
Finished goods	169,588	209,266
	432,366	593,114
Profit or loss:		
Inventories recognised as an expense in cost of sales	3,033,738	3,000,451
Write-down of inventories to net realisable value (note 7)	5,410	–
	3,039,148	3,000,451

22. Trade and Bills Receivables

	Group	
	2012	2011
	RMB'000	RMB'000
Trade receivables	15,520	28,725
Bills receivable	1,740	2,050

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.

22. Trade and Bills Receivables (continued)

The Group's trading terms with its customers are mainly payment in advance or on credit for certain customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over these balances.

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

	2012 RMB'000	2011 RMB'000
Within 1 month	13,876	20,256
1 to 3 months	830	1,842
3 to 6 months	469	6,625
6 to 12 months	345	2
	15,520	28,725

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

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	14,706	22,098
Less than 3 months past due	469	–
More than 3 months past due	345	6,627
	15,520	28,725

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.

22. Trade and Bills Receivables (continued)

At 31 December 2012, the Group endorsed certain bills receivable accepted by banks in the PRC (the "Derecognised Bills"), to certain of its suppliers in order to settle the trade payables due to such suppliers (the "Endorsement") with a carrying amount in aggregate of RMB175,510,000. The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

During the year ended 31 December 2012, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the continuing involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

23. Prepayments, Deposits and Other Receivables

		Group	
		2012	2011
	Note	RMB'000	RMB'000
NON-CURRENT			
Prepayments for purchases of items of plant and equipment		721,626	216,822
CURRENT			
Prepayments			
Advanced deposits to suppliers		129,842	113,591
Current portion of prepaid land lease payments	16	3,843	2,117
Other prepayments		6,945	825
		140,630	116,533
Deposits and other receivables			
VAT recoverable		38,223	2,588
Others		10,857	10,751
		49,080	13,339
Total prepayments, deposits and other receivables		189,710	129,872

23. Prepayments, Deposits and Other Receivables (continued)

	Company	
	2012	2011
	RMB'000	RMB'000
Prepayments	318	317

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.

24. Cash and Cash Equivalents and Pledged Deposits

	Group		Company	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Time deposits	12,900	53,632	–	43,632
Less:				
Pledged time deposits for bills payable (note 27)	(12,900)	(10,000)	–	–
	–	43,632	–	43,632
Cash at banks and on hand	477,610	470,466	4,587	1,383
Cash and cash equivalents	477,610	514,098	4,587	45,015

At 31 December 2012, the cash and bank balances of the Group denominated in RMB amounted to RMB424,567,000 (2011: RMB497,273,000). 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 six 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.

25. Due from/to Related Companies

Balances with related companies are unsecured, interest-free and repayable on demand, except for an amount due to Henan Xinlianxin Chemicals Group Co., Ltd. ("Henan Chemicals") as at 31 December 2011 which bore interest at 5.13% per annum.

Particulars of the amount due from a related company, disclosed pursuant to Section 161B of the Hong Kong Companies Ordinance, are as follows:

Name	31 December 2012 RMB'000	Maximum amount outstanding during the year RMB'000	1 January 2012 RMB'000
Xinxiang Xinlianxin Chemical Equipment Co., Ltd.	1,760	8,183	–

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.

26. 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	
	2012 RMB'000	2011 RMB'000
Within 1 month	44,495	37,048
1 to 3 months	55,750	77,608
3 to 6 months	4,948	3,288
6 to 12 months	1,941	2,596
Over 12 months	3,639	303
	110,773	120,843

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

27. Bills Payable

The Group's bills payable had an average maturity period of 90 to 180 days and were interest-free. Bills payable were denominated in RMB and were secured by time deposits of RMB12,900,000 (2011: RMB10,000,000) (note 24).

28. Accruals and Other Payables

	Group	
	2012 RMB'000	2011 RMB'000
Accruals		
Accrued expenses	70,404	45,238
Accruals for construction costs and purchases of items of property, plant and equipment	92,646	47,398
	163,050	92,636
Other payables		
Advanced purchase deposits from customers	180,301	145,411
VAT and other operating tax payables	1,562	4,483
Tender deposits	50,863	33,077
Payable to the former owner of a newly acquired subsidiary	–	39,488
Others	26,661	21,278
	259,387	243,737
	422,437	336,373

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

29. Deferred Grants

	Group	
	2012	2011
	RMB'000	RMB'000
Cost:		
At beginning of the year	6,000	6,000
Received during the year	24,700	–
At end of year	30,700	6,000
Accumulated amortisation:		
At beginning of the year	2,535	2,040
Amortisation during the year	1,095	495
At end of year	3,630	2,535
Net carrying amount:		
Current	3,596	3,465
Non-current	23,474	–
	27,070	3,465

As at 31 December 2012 and 2011, deferred grants related to government grants given to the Group for the construction of production plants and installation and building of machinery to implement energy-saving production methods and to reduce production cost. They are amortised over the useful life of the related property, plant and equipment. There are no unfulfilled conditions or contingencies relating to these grants. During the year, government grants of aggregately RMB24,700,000 (2011: Nil) were given to the Group.

30. Interest-Bearing Bank and Other Borrowings

Group

	2012			2011		
	Contractual interest rate	Maturity	RMB'000	Contractual interest rate	Maturity	RMB'000
CURRENT						
Bank loans						
– secured (note (a))	–	–	–	6.45%	2012	90,000
– unsecured	5.6% to 6.8%	2013	172,000	5.4% to 7.1%	2012	451,000
			172,000			541,000
NON-CURRENT						
Bank loans						
– unsecured	1.81% to 7.32%	2014 to 2018	1,672,212	5.04% to 7.32%	2013 to 2016	1,058,000
Loan from the government						
– unsecured	Floating rate at 0.3% above the market prime lending rate	2020	7,273	Floating rate at 0.3% above the market prime lending rate	2020	9,091
			1,679,485			1,067,091
			1,851,485			1,608,091

	Group	
	2012	2011
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	172,000	541,000
In the second year	965,212	628,000
In the third to fifth years, inclusive	247,000	200,000
Beyond five years	460,000	230,000
	1,844,212	1,599,000
Other borrowings repayable:		
Beyond five years	7,273	9,091
	1,851,485	1,608,091

30. Interest-Bearing Bank and Other Borrowings (continued)

Notes:

(a) Certain bank loans of the Group had been guaranteed by independent third parties as at 31 December 2011.

(b) Except for an unsecured bank loan amounting to RMB268,212,000 (2011: Nil) which is denominated in United States dollars ("USD"), all borrowings are in Renminbi.

31. Short-Term Bond Payable

On 10 May 2012, Henan Xinlianxin Fertiliser Co., Ltd., a subsidiary of the Company, issued a short-term unsecured corporate bond of RMB300,000,000 to a number of financial institutions with China Minsheng Banking Corp., Ltd. as the principal underwriter, with a maturity period of 1 year and a fixed interest rate of 5.7% per annum. The principal and the interest will be repaid at the end of the term on 11 May 2013.

32. Convertible Bonds

On 21 December 2011, the Company issued RMB denominated convertible bonds with a nominal value of RMB324,366,000. There was no movement during the year. The direct transaction costs attributable to the convertible bonds amounted to RMB2,370,000. The bonds are convertible into ordinary shares of the Company at the option of the bondholder at the initial conversion price of approximately RMB1.84 per share anytime after the issuance of the convertible bonds. While the convertible bonds bear interest at 4.5% per annum, the Company may, at its sole discretion, elect to defer the interest pursuant to the terms of the convertible bonds.

Unless previously redeemed, purchased and cancelled or converted, all the convertible bonds outstanding shall be converted into ordinary shares of the Company on the fifth anniversary of the date of issue. The convertible bonds are redeemable at the option of the holder of convertible bonds only upon the occurrence of a winding-up (any step taken by any person at the sole election of the Company (not under direction of any third party, including judicial or regulatory) with a view to the voluntary winding-up or dissolution or administration of any group companies (including but not limited to a members' voluntary solvent winding-up), or any group companies cease or threaten to cease to carry on all or substantially all of its business or operations) at a redemption price which shall be equivalent to the aggregate of the outstanding principal amount of the convertible bonds together with a redemption premium of 8.0% per annum on such outstanding principal amount, up to the date fixed for redemption.

In the opinion of the directors, the Company is able to defer or control the redemption of the principal, the payment of bond interests and other cash payments to the bondholder. Accordingly, the convertible bonds are classified as equity instruments.

During the year, bond interest of RMB15,036,000 (2011: Nil) was accrued and of which RMB14,596,000 (2011: Nil) was paid to the bondholder.

33. Deferred Tax

Deferred tax liabilities

Group

	Fair value adjustments arising from acquisition of a subsidiary RMB'000	Withholding tax RMB'000	Total RMB'000
At 1 January 2011	–	35,071	35,071
Acquisition of a subsidiary (note 36)	9,790	–	9,790
Deferred tax charged/(credited) to profit or loss during the year (note 11)	(30)	11,388	11,358
At 31 December 2011 and at 1 January 2012	9,760	46,459	56,219
Payment during the year	–	(4,778)	(4,778)
Deferred tax credited to profit or loss during the year (note 11)	(360)	–	(360)
At 31 December 2012	9,400	41,681	51,081

Deferred tax assets

	Deductible temporary differences RMB'000
At 1 January 2011, 31 December 2011 and 1 January 2012	–
Deferred tax credited to profit or loss during the year (note 11)	4,706
At 31 December 2012	4,706

33. Deferred Tax (continued)

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from 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. As at 31 December 2011, the Group made provision for deferred tax liabilities on withholding tax at 5% of the earnings of all its PRC subsidiaries since 1 January 2008. For the year ended 31 December 2012, deferred tax liabilities were provided based on the forecasted dividend payout because the directors believe that the PRC subsidiaries would not pay out all their earnings as dividends and the new basis of provision could more accurately reflect the actual deferred tax liabilities of the Group arising from distribution of dividends by its PRC subsidiaries. This constituted a change in accounting estimate and has been applied prospectively and has resulted in a reduction in the deferred tax liabilities of approximately RMB17,109,000 had deferred tax liabilities been provided for 100% of the retained earnings of the PRC subsidiaries.

Deferred tax liabilities arising from fair value adjustments arising from acquisition of a subsidiary represented the deferred tax liabilities on fair value uplift of the coal mining right owned by the subsidiary, 瑪納斯天利煤業有限責任公司 ("Tianli"), arising from acquisition in 2011. Details of the acquisition of Tianli are set out in note 36 to the financial statements.

34. Share Capital

	Number of ordinary shares		Amount	
	2012	2011	2012	2011
			RMB'000	RMB'000
Issued and fully paid	1,000,000,000	1,000,000,000	836,671*	836,671*

* Equivalent to Singapore dollars ("SGD") 165,677,000.

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.

35. Reserves

The amounts of the Group's and the Company's reserves and the movements therein for the years ended 31 December 2012 and 2011 are presented in the statements of changes in equity.

In accordance with the Wholly Foreign Owned Enterprise Law applicable to the subsidiaries in the PRC, the subsidiaries are 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 subsidiaries' 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 subsidiaries.

36. Business Combination

On 22 November 2011, the Group had acquired a 100% interest in Tianli from an independent third party. Tianli is engaged in coal mining and the sale of coal. The acquisition was made as part of the Group's strategy to obtain the necessary upstream experience in managing coal mines. The purchase consideration for the acquisition was in the form of cash, with RMB40,000,000 paid at the acquisition date. The fair values of the identifiable assets and liabilities of Tianli as at the date of acquisition were determined by 新疆宏昌礦業權評估咨詢有限責任公司 and 河南豫財資產評估有限公司, independent professionally qualified valuers.

The fair values of the identifiable assets and liabilities of Tianli as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition RMB'000
Property, plant and equipment	15	41,193
Coal mining right	18	41,901
Cash and bank balances		936
Trade and bills receivables		6,121
Prepayments		2,662
Other receivables		2,955
Inventories		1,437
Accruals and other payables		(54,365)
Deferred tax liabilities	33	(9,790)
Total identifiable net assets at fair value		33,050
Goodwill on acquisition	17	6,950
Satisfied by cash		40,000

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(40,000)
Cash and bank balances acquired	936
Net outflow of cash and cash equivalents included in cash flows from investing activities	39,064

Since the acquisition, Tianli contributed a loss of RMB1,060,000 to the Group's consolidated profit for the year ended 31 December 2011. Had the acquisition taken place at the beginning of 2011, the revenue of the Group and the profit for that year would have been RMB3,719,433,000 and RMB190,214,000, respectively.

37. Note to the Consolidated Statement of Cash Flows

Major non-cash transaction – interest capitalisation

During the year, the Group capitalised interest expenses of RMB27,759,000 (2011: RMB6,837,000) to property, plant and equipment (note 8).

38. Contingent Liabilities

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

39. Operating Lease Arrangements

At the end of the reporting period, the Group had outstanding operating lease agreements for buildings, and plant and machinery in Mainland China. Future minimum rentals payable of the Group under non-cancellable operating leases at the end of the reporting period are as follows:

	2012 RMB'000	2011 RMB'000
Within one year	19,420	1,082
In the second to fifth years, inclusive	297,956	3,488
After five years	32,105	27,416
	349,481	31,986

The Company had no operating lease arrangements as at 31 December 2012 and 2011.

40. Commitments

In addition to the operating lease commitments detailed in note 39 above, the Group had the following capital and other commitments at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
Capital commitments		
Contracted, but not provided for:		
Buildings	223,396	179,785
Plant and machinery	978,518	128,593
	1,201,914	308,378
Authorised, but not contracted for:		
Plant and machinery	2,689,163	2,000,622
	3,891,077	2,309,000
Other commitments		
Purchases of raw materials	2,078	5,954

The Company had no material commitments as at 31 December 2012 and 2011.

41. 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	2012 RMB'000	2011 RMB'000
Sales of electricity, water and steam to:*	(i)		
– Henan Shenzhou Heavy Sealing Co., Ltd.#		1,200	1,004
– Xinxiang Xinlianxin Gas Products Co., Ltd.#		8,976	9,032
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#		48	12
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		205	298
– Xinxiang Yuyuan Chemical Co., Ltd.#		604	676
– Xinxiang Xinlianxin Hotel Co., Ltd.#		219	159
Service fee income for provision of calibration and testing services to:	(ii)		
– Henan Shenzhou Heavy Sealing Co., Ltd.#		42	24
– Xinxiang Xinlianxin Gas Products Co., Ltd.#		7	12
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		23	5
– Xinxiang Yuyuan Chemical Co., Ltd.#		45	18
– Xinxiang Xinlianxin Hotel Co., Ltd.#		1	1
Purchases of raw materials and consumables from:	(iii)		
– Xinxiang Xinlianxin Gas Products Co., Ltd.#		186	265
Purchases of items of property, plant and equipment from:	(iv)		
– Xinxiang Xinlianxin Chemical Equipment Co., Ltd.#		11,493	2,447
– Henan Shenzhou Heavy Sealing Co., Ltd.#		2	–
Service fee expenses for provision of lifting services from:	(v)		
– Xinxiang Xinlianxin Lifting Equipment Co., Ltd.#		3,715	2,507
Operating lease expenses to:	(vi)		
– Henan Chemicals		480	480
Catering and accommodation expenses to:	(vii)		
– Henan Shenzhou Heavy Sealing Co., Ltd.#		–	1
– Xinxiang Xinlianxin Hotel Co., Ltd.#		4,459	3,232
– Xinxiang City Eight Mile Gully Resort Co., Ltd.#		662	591
Interest expense to:	(viii)		
– Henan Chemicals		–	439

41. 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)

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. Xinxiang Xinlianxin Gas Products Co., Ltd. ceased to be a related party of the Group since Henan Chemicals disposed of it in October 2012, therefore, the table above only includes transactions with Xinxiang Xinlianxin Gas Products Co., Ltd. before the disposal.

* The amounts represent gross sales of by-products. Profit generated from such sales amounting to RMB3,175,000 (2011: RMB1,601,000) is included in net profit from sales of by-products (note 6).

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 approximately 41% 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 (2011: RMB40,000).

(vii) The catering and accommodation expenses were charged based on mutually agreed terms with reference to the actual costs incurred.

(viii) The interest expense was charged based on a fixed interest rate of 5.13% per annum on the balance due to the related company for the year ended 31 December 2011.

Except for the interest expense paid to Henan Chemicals for the year ended 31 December 2011, the related party transactions above constitute continuing connected transactions as defined in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

41. Related Party Transactions (continued)

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

	2012 RMB'000	2011 RMB'000
Directors' fees	800	800
Salaries and bonuses	11,750	6,544
Contributions to defined contribution plans	207	151
	12,757	7,495
Comprise amounts paid to:		
– Directors of the Company	9,030	5,416
– Other key management personnel	3,727	2,079
	12,757	7,495

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

42. Financial Instruments by Category

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

Financial assets

		2012			2011		
	Notes	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Available-for-sale investments	19	–	12,201	12,201	–	5,705	5,705
Due from a related company	25	1,760	–	1,760	–	–	–
Trade receivables	22	15,520	–	15,520	28,725	–	28,725
Bills receivable	22	1,740	–	1,740	2,050	–	2,050
Deposits and other receivables	23	49,080	–	49,080	13,339	–	13,339
Pledged deposits	24	12,900	–	12,900	10,000	–	10,000
Cash and cash equivalents	24	477,610	–	477,610	514,098	–	514,098
		558,610	12,201	570,811	568,212	5,705	573,917

42. Financial Instruments by Category (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

Financial liabilities

		Financial liabilities at amortised cost	
		2012	2011
	Notes	RMB'000	RMB'000
Due to related companies	25	135	163
Trade payables	26	110,773	120,843
Bills payable	27	25,800	–
Financial liabilities included in accruals and other payables	28	242,136	336,373
Interest-bearing bank and other borrowings	30	1,851,485	1,608,091
Short-term bond payable	31	300,000	–
		2,530,329	2,065,470

Company

Financial assets

		Loans and receivables	
		2012	2011
	Note	RMB'000	RMB'000
Due from a subsidiary		132,938	84,061
Cash and cash equivalents	24	4,587	45,015
		137,525	129,076

		Available-for-sale financial assets	
		2012	2011
	Note	RMB'000	RMB'000
Available-for-sale investment	19	4,701	5,705

Financial liabilities

	Financial liabilities at amortised cost	
	2012	2011
	RMB'000	RMB'000
Accruals	19,819	18,454

43. 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	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Due from a related company	1,760	–	1,760	–
Trade receivables	15,520	28,725	15,520	28,725
Bills receivable	1,740	2,050	1,740	2,050
Deposits and other receivables	49,080	13,339	49,080	13,339
Pledged deposits	12,900	10,000	12,900	10,000
Cash and cash equivalents	477,610	514,098	477,610	514,098
Available-for-sale investment, at fair value	4,701	5,705	4,701	5,705
	563,311	573,917	563,311	573,917
Financial liabilities				
Due to related companies	135	163	135	163
Trade payables	110,773	120,843	110,773	120,843
Bills payable	25,800	–	25,800	–
Financial liabilities included in accruals and other payables	242,136	336,373	242,136	336,373
Interest-bearing bank and other borrowings	1,851,485	1,608,091	1,851,485	1,608,091
Short-term bond payable	300,000	–	300,000	–
	2,530,329	2,065,470	2,530,329	2,065,470

43. Fair Value and Fair Value Hierarchy (continued)

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

Company

	Carrying amounts		Fair values	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Due from a subsidiary	132,938	84,061	132,938	84,061
Cash and cash equivalents	4,587	45,015	4,587	45,015
Available-for-sale investment	4,701	5,705	4,701	5,705
	142,226	134,781	142,226	134,781
Financial liabilities				
Accruals	19,819	18,454	19,819	18,454

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:

The fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, deposits and other receivables, balances with related companies, financial liabilities included in accruals and other payables, and short-term bond payable 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 value of the listed equity investment is determined by direct reference to its bid price quotation in an active market at the end of the reporting period.

43. Fair Value and Fair Value Hierarchy (continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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)

Asset measured at fair value:

Group and Company

As at 31 December 2012

	Level 1 RMB'000
Available-for-sale investment	4,701

As at 31 December 2011

	Level 1 RMB'000
Available-for-sale investment	5,705

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 (2011: Nil).

Liability measured at fair value:

The Group and the Company had no financial liabilities measured at fair value as at 31 December 2012 and 2011.

44. 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:

	2012 RMB'000	% of total	2011 RMB'000	% of total
Urea	13	–	–	–
Compound fertiliser	15,507	100	27,660	96
Others	–	–	1,065	4
Total	15,520	100	28,725	100

At 31 December 2012, none of the Group's trade receivables (2011: Nil) were due from its top 10 customers.

44. Financial Risk Management Objectives and Policies (continued)

(b) Liquidity risk

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

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

The table below summarises the maturity profile of the Group's and the Company's financial liabilities at the end of the reporting period based on the contractual undiscounted repayment obligations.

	Within 1 year or on demand RMB'000	1 to 3 years RMB'000	3 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Group					
31 December 2012					
Due to related companies	135	–	–	–	135
Trade payables	110,773	–	–	–	110,773
Bills payable	25,800	–	–	–	25,800
Financial liabilities included in accruals and other payables	242,136	–	–	–	242,136
Interest-bearing bank and other borrowings	179,054	1,046,828	320,455	643,530	2,189,867
Short-term bond payable	317,100	–	–	–	317,100
	874,998	1,046,828	320,455	643,530	2,885,811
31 December 2011					
Due to related companies	163	–	–	–	163
Trade payables	120,540	303	–	–	120,843
Accruals and other payables	336,373	–	–	–	336,373
Interest-bearing bank and other borrowings	563,206	873,753	67,190	334,926	1,839,075
	1,020,282	874,056	67,190	334,926	2,296,454
Company					
31 December 2012					
Accruals	19,819	–	–	–	19,819
31 December 2011					
Accruals	18,454	–	–	–	18,454

44. Financial Risk Management Objectives and Policies (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in market interest rates. The Group's 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.

Cash flow sensitivity analysis for variable rate instruments

For variable rate financial assets and liabilities, the Group has determined 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 bank and other 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	2012 RMB'000	2011 RMB'000
Interest expense			
RMB	10	(1,252)	(1,206)
USD	10	(228)	–
Interest income			
RMB	10	361	435
SGD	10	–	1
USD	50	277	112

44. Financial Risk Management Objectives and Policies (continued)

(d) *Foreign currency risk*

The Group holds cash and cash equivalents and interest-bearing bank borrowing denominated in foreign currencies for working capital purposes. At the end of the reporting period, such foreign currency net assets/ (liabilities) (mainly in SGD, USD and Hong Kong dollars ("HKD")) are as follows:

	2012 RMB'000	2011 RMB'000
SGD	392	962
USD	(202,984)	25,539
HKD	322	324
	(202,270)	26,825

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.

		2012 RMB'000	2011 RMB'000
SGD	– strengthened 5% (2011: 5%)	20	48
	– weakened 5% (2011: 5%)	(20)	(48)
USD	– strengthened 2% (2011: 2%)	(4,060)	511
	– weakened 2% (2011: 2%)	4,060	(511)
HKD	– strengthened 1% (2011: 1%)	3	3
	– weakened 1% (2011: 1%)	(3)	(3)

45. Capital Management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2012 and 2011.

As disclosed in note 35, subsidiaries of the Group are 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 subsidiaries for the years ended 31 December 2012 and 2011.

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%.

	2012 RMB'000	2011 RMB'000
Due to related companies	135	163
Trade payables	110,773	120,843
Bills payable	25,800	–
Accruals and other payables	422,437	336,373
Interest-bearing bank and other borrowings	1,851,485	1,608,091
Short-term bond payable	300,000	–
Less: Cash and cash equivalents	(477,610)	(514,098)
Less: Pledged deposits	(12,900)	(10,000)
Net debt	2,220,120	1,541,372
Equity attributable to owners of the parent	2,321,202	2,061,677
Less: Statutory reserve fund	(167,873)	(133,655)
Total capital	2,153,329	1,928,022
Capital and net debt	4,373,449	3,469,394
Gearing ratio	50.8%	44.4%

Net debt includes interest-bearing bank and other borrowings, short-term bond payable, trade and bills payables, amounts due to related companies, accruals and other payables, 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.

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

For the years ended 31 December 2012 and 2011, 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 2012 and 2011 prepared under SFRSs and IFRSs are as follows:

	Note	Issued capital RMB'000	Convertible bonds RMB'000	Statutory reserve fund RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Non-controlling interest RMB'000	Total equity RMB'000
As at 31 December 2012								
Total equity under SFRSs		836,671	322,436	167,873	931,222	63,000	7,230	2,328,432
Share issue expenses	(i)	44,453	–	–	(44,453)	–	–	–
Total equity under IFRSs		881,124	322,436	167,873	886,769	63,000	7,230	2,328,432
As at 31 December 2011								
Total equity under SFRSs		836,671	321,996	133,655	732,355	37,000	–	2,061,677
Share issue expenses	(i)	44,453	–	–	(44,453)	–	–	–
Total equity under IFRSs		881,124	321,996	133,655	687,902	37,000	–	2,061,677

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.

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

47. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 25 February 2013.

Five-Year Financial Summary

A summary of the consolidated results and assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
RESULTS					
REVENUE	3,945,584	3,688,233	2,851,403	2,329,607	2,084,943
Cost of sales	(3,225,942)	(3,181,860)	(2,487,342)	(2,014,212)	(1,603,073)
Gross profit	719,642	506,373	364,061	315,395	481,870
Other income and gains	29,080	23,986	16,664	11,661	13,664
Selling and distribution expenses	(69,462)	(70,500)	(38,686)	(16,902)	(20,722)
General and administrative expenses	(202,493)	(136,059)	(104,150)	(110,536)	(91,290)
Other expenses	(22,387)	(20,025)	(8,461)	(11,587)	(6,963)
Finance costs	(82,359)	(78,930)	(53,447)	(36,522)	(26,791)
PROFIT BEFORE TAX	372,021	224,845	175,981	151,509	349,768
Income tax expense	(61,020)	(44,337)	(31,410)	(32,285)	(18,094)
PROFIT FOR THE YEAR	311,001	180,508	144,571	119,224	331,674
Attributable to:					
Owners of the parent	311,121	180,508	144,571	119,224	331,674
Non-controlling interest	(120)	–	–	–	–
	311,001	180,508	144,571	119,224	331,674
ASSETS AND LIABILITIES					
TOTAL ASSETS	5,117,217	4,187,695	3,195,356	2,910,557	2,481,904
TOTAL LIABILITIES	(2,788,785)	(2,126,018)	(1,605,866)	(1,435,914)	(1,030,998)
	2,328,432	2,061,677	1,589,490	1,474,643	1,450,906

Analysis of Shareholdings as at 1 March 2013

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

Distribution of Shareholdings as at 1 March 2013

Size of shareholdings	No. of shareholders	%	No. of shares	%
1 – 999	6	0.14	1,945	0.01
1,000 – 10,000	2,540	56.82	16,637,676	1.66
10,001 – 1,000,000	1,906	42.64	88,426,055	8.84
1,000,001 and above	18	0.40	894,934,324	89.49
Total	**4,470**	**100.00**	**1,000,000,000**	**100.00**

Twenty Largest Shareholders as at 1 March 2013

No.	Shareholder's name	No. of shares	%
1	HKSCC NOMINEE LIMITED	735,609,000	73.56
2	BIG DAY LIMITED	49,900,000	4.99
3	DBS NOMINEES PTE LTD	24,856,853	2.49
4	AMFRASER SECURITIES PTE. LTD.	24,170,000	2.42
5	HSBC (SINGAPORE) NOMINEES PTE LTD	17,690,866	1.77
6	DBSN SERVICES PTE LTD	17,266,486	1.72
7	UOB KAY HIAN PTE LTD	3,394,000	0.34
8	DBS VICKERS SECURITIES (SINGAPORE) PTE LTD	2,930,000	0.29
9	PHILLIP SECURITIES PTE LTD	2,863,000	0.29
10	MAYBANK KIM ENG SECURITIES PTE LTD	2,560,000	0.26
11	UNITED OVERSEAS BANK NOMINEES PTE LTD	2,221,000	0.22
12	PIONEER TOP HOLDINGS LIMITED	1,915,000	0.19
13	CIMB SECURITIES (SINGAPORE) PTE LTD	1,733,000	0.17
14	OCBC SECURITIES PRIVATE LIMITED	1,701,000	0.17
15	HONG LEONG FINANCE NOMINEES PTE LTD	1,630,000	0.16
16	CITIBANK NOMINEES SINGAPORE PTE LTD	1,564,073	0.16
17	RAFFLES NOMINEES (PTE) LTD	1,485,046	0.15
18	OCBC NOMINEES SINGAPORE PTE LTD	1,445,000	0.14
19	CHIN KIM YON OR KANG LAY HOON	1,000,000	0.10
20	MORGAN STANLEY ASIA (SINGAPORE) SECURITIES PTE LTD	958,000	0.10
	Total	**896,892,324**	**89.69**

Statistics of Shareholdings

Shareholdings as shown in the Register of Substantial Shareholders as at 1 March 2013

Name	Direct Interest		Deemed Interest	
	No. of Shares	%	No. of Shares	%
Pioneer Top Holdings Limited ("Pioneer Top")	349,219,000*	34.92	–	–
Go Power Investments Limited ("Go Power")	297,734,000**	29.77	–	–
Mr. Liu Xingxu	600,000	0.06	349,219,000*	34.92
Ms. Yan Yunhua	300,000	0.03	297,734,000**	29.77

* Pioneer Top is a company incorporated in the British Virgin Islands. The Chairman and Chief Executive Officer, Mr. Liu Xingxu holds approximately 42% interest in Pioneer Top, with the remaining approximately 58% held in trust by Mr. Liu for the beneficiaries under a trust arrangement dated 26 July 2006. The beneficiaries under the trust arrangement are Mr. Li Buwen, with approximately 16% equity interest, Mr. Li Yushun, Mr. Ru Zhengtao, Mr. Wang Nairen, Mr. Zhang Qingjin, Mr. Zhu Xingye and Mr. Shang Dewei, with approximately 7% equity interest respectively. The shareholdings of Pioneer Top are held through the nominee, HKSCC Nominees Limited.

** Go Power is a company incorporated in the British Virgin Islands. The Chief Financial Officer and Executive Director, Ms. Yan Yunhua holds approximately 12.74% interest in Go Power, with the remaining approximately 87.26% held in trust by Ms. 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. The shareholdings of Go Power are held through the nominee, HKSCC Nominees Limited.

Percentage of Shareholdings in Public Hands

As at 1 March 2013, approximately 35.20% of the Company's shares are held in the hands of the public among which approximately 21.45% are held in the hands of the public in Singapore. Accordingly, the Company has complied with the Rule 723 of the Listing Manual and Rule 8.08 of the Listing Rules.

Information for Investors

Annual Results Announcement

25 February 2013

Annual General Meeting

26 April 2013

Record Date for Final Dividend

10 May 2013

Books Closure Period

Singapore: 8 May 2013 after 5:00 p.m. to 10 May 2013
Hong Kong: 9 May 2013 to 10 May 2013

Final Dividend Payout Date

27 May 2013

Principal Share Registrar in Singapore

Tricor Barbinder Share Registration Services
(A division of Tricor Singapore Pte. Ltd.)
80 Robinson Road
#02-00 Singapore 068898

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: 1866
Singapore Exchange: B9R
Bloomberg: CXLX: SP; 1866: HK
Reuters: CXLX.SI; 1866.HK

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Glossary

In this annual report, unless the context states otherwise, the following terms shall have the following meanings:

"AC"	Audit Committee of the Company
"AGM"	Annual General Meeting of the Company
"Articles"	Articles of Association of the Company
"Board" or "Board of Directors"	The Board of Directors
"Company" or "China XLX" or "XLX"	China XLX Fertiliser Ltd.
"Director(s)"	Director(s) of the Company
"EGM"	Extraordinary General Meeting of the Company
"Group"	The Company and its subsidiaries altogether
"Henan XLX Fertiliser"	Henan Xinlianxin Fertiliser Co., Ltd., a wholly owned subsidiary of the Company
"HK CG Code"	The Corporate Governance Code and Corporate Governance Report set out in Appendix 14 to the Hong Kong Listing Rules
"Hong Kong Stock Exchange" or "SEHK"	The Stock Exchange of Hong Kong Limited
"Listing Manual"	The listing manual of the SGX-ST
"Listing Rules"	Rules Governing the Listing of Securities on the SEHK
"NC"	Nomination Committee of the Company
"PRC" or "China"	The People's Republic of China
"RC"	Remuneration Committee of the Company
"RMB"	Renminbi, the lawful currency of the PRC
"S$"	Singapore dollars
"SFO"	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"SGX-ST" or "Singapore Exchange"	Singapore Exchange Securities Trading Limited
"Shareholders"	Shareholders of the Company

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
Hong Kong Stock Code: 1866

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