



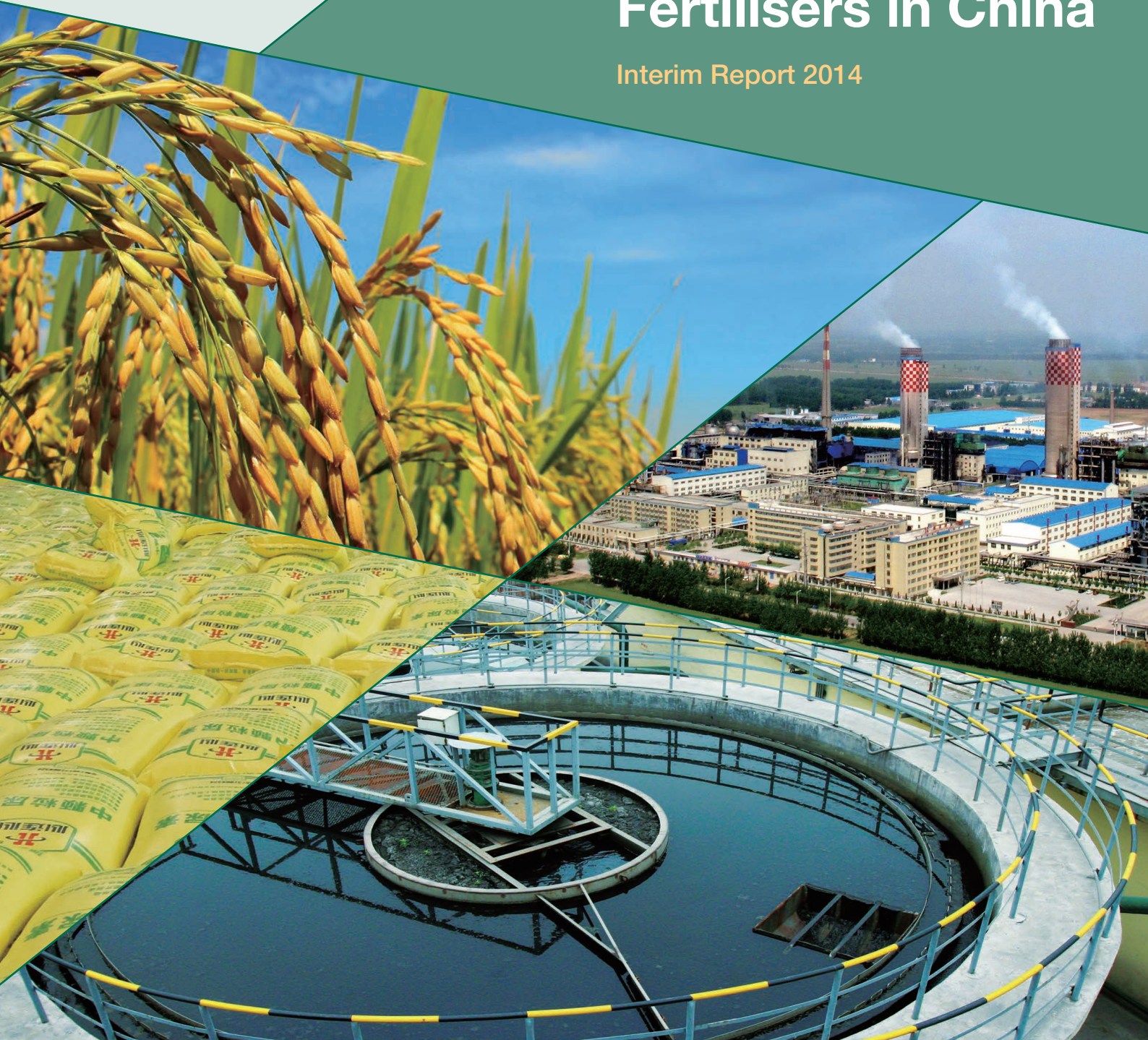
China XLX Fertiliser Ltd.
中國心連心化肥有限公司*
(Incorporated in Singapore with limited liability)

Hong Kong Stock Code: 1866

* For identification purpose only

Pioneer of High-Efficiency Fertilisers in China

Interim Report 2014



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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
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

Authorised Representatives under Hong Kong Listing Rules

YAN Yunhua
SOON Yuk Tai

Joint Company Secretaries

SOON Yuk Tai
TEO Meng Keong

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 Advisors to the Group

Reed Smith Richards Butler (Hong Kong)
Haihua Yongtai Law Firm (China)
Shook Lin & Bok LLP (Singapore)

Principal Bankers

China Construction Bank
Bank of China
Industrial & Commercial Bank of China
Bank of Communications
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 Code

Hong Kong Stock Code: 1866

Corporate Website

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

The board of directors (the “Board”) of China XLX Fertiliser Ltd. (the “Company” and, together with its subsidiaries, the “Group”) is pleased to present this interim report for the six months ended 30 June 2014.

(I) Business Review

Revenue

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

Urea

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

Methanol

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

Compound fertiliser

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

Gross profit margin

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

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

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

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

(I) Business Review (continued)

Other income and expenses

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

Selling and distribution expenses

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

General and administrative expenses

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

Finance costs

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

Income tax expense

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

Profit for the period

The profit for the period decreased by approximately RMB128 million or 67% from approximately RMB190 million in 1H2013 to approximately RMB62 million in 1H2014. This was mainly due to the decrease in gross profit of approximately RMB32 million in 1H2014 led by the decline in the average selling prices of urea and compound fertiliser and the increase in selling and distribution expenses, general and administrative expenses and finance costs by approximately RMB44 million, RMB12 million and RMB67 million respectively. The decrease in profit for the period was partially offset by the increase in other incomes by approximately RMB6 million and the decrease in income tax expense by approximately RMB20 million.

(II) Financial Review

Gearing

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

| | 30 June 2014 RMB'000 (Unaudited) | 31 December 2013 RMB'000 (Audited) |
|--|---|---|
| Due to related companies | 4,479 | – |
| Trade and bills payables | 687,079 | 348,314 |
| Accruals and other payables | 779,203 | 829,368 |
| Interest-bearing bank and other borrowings | 4,008,976 | 2,972,815 |
| Short-term bond payable | – | 300,000 |
| Other payables | 3,840 | 398 |
| Long-term bond payable | 250,000 | 250,000 |
| Less: Cash and cash equivalents | (798,232) | (797,813) |
| Less: Pledged deposits | (329,147) | (148,961) |
| Net debt | 4,606,198 | 3,754,121 |
| Equity attributable to owners of the Company | 2,515,407 | 2,511,280 |
| Less: Statutory reserve fund | (205,760) | (199,295) |
| Total capital | 2,309,647 | 2,311,985 |
| Capital and net debt | 6,915,845 | 6,066,106 |
| Gearing ratio | 66.6% | 61.9% |

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

Loans

Amount payable in one year or less, or on demand

| | As at 30/6/2014 | | As at 31/12/2013 | |
|-------------------------|-----------------------------------|-------------------------------------|---------------------------------|-----------------------------------|
| | Secured RMB'000 (Unaudited) | Unsecured RMB'000 (Unaudited) | Secured RMB'000 (Audited) | Unsecured RMB'000 (Audited) |
| Bank loans | 183,956 | 360,000 | 94,983 | 40,000 |
| Short-term bond payable | – | – | – | 300,000 |
| | 183,956 | 360,000 | 94,983 | 340,000 |

Management Discussion and Analysis

(II) Financial Review (continued)

Loans (continued)

Amount payable after one year

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

Details of guarantee

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

(III) Prospects

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

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

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

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

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

(IV) Directors' and Chief Executives' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2014, the interests of the directors of the Company (the "Directors") and chief executives 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") and Section 352 of the Hong Kong Securities and Futures 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 "HK 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

| Name of Directors | Number of ordinary shares interested | | | Percentage [#] of the Company's issued share capital |
|-------------------|--------------------------------------|---------------------------|-----------------|---|
| | Personal interests | Corporate interests | Total interests | |
| Mr. Liu Xingxu | 600,000 | 350,794,000 (Note (a)) | 351,394,000 | 35.14% |
| 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 30 June 2014.

Notes:

- (a) These shares were held by Pioneer Top Holdings Limited ("Pioneer Top"). Mr. Liu Xingxu beneficially owned approximately 42% of the 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 30 June 2014, none of the Directors, chief executives of the Company nor their associates had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of 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 and Section 352 of the SFO, or which has been notified to the Company and SEHK pursuant to the HK Model Code.

Management Discussion and Analysis

(V) Substantial Shareholders' Interests in Shares and Underlying Shares and Debentures

As at 30 June 2014, 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 and Section 336 of the SFO, or as known by the Company:

Long positions

| Name of substantial shareholders | Capacity | Number of issued ordinary shares interested | Number of underlying shares upon conversion of the convertible bonds | Percentage of shares/ underlying shares over the Company's issued share capital |
|--|--------------------------------|---|--|---|
| Pioneer Top (Note (a)) | Beneficial owner | 350,794,000 | – | 35.08% ^(*) |
| Go Power (Note (b)) | Beneficial owner | 297,734,000 | – | 29.77% ^(*) |
| Nitro Capital Limited (“Nitro”) (Note (c)) | Beneficial owner | – | 176,000,000 | 14.97% ^(**) |
| CITIC Securities Company Limited (Note (d)) | Interest held by corporations | 263,397,000 | – | 26.34% ^(*) |
| CITIC Securities International Company Limited (Note (d)) | Interest held by a corporation | 263,397,000 | – | 26.34% ^(*) |
| CITIC Securities Corporate Finance (HK) Limited (Note (d)) | Beneficial owner | 263,397,000 | – | 26.34% ^(*) |

* The percentage represents the number of issued ordinary shares interested divided by the number of the Company's issued shares as at 30 June 2014.

** The percentage represents the number of underlying shares interested divided by the number of the Company's issued shares as at 30 June 2014, 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 the trust agreement. Ms. Yan Yunhua had 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”.

(V) Substantial Shareholders' Interests in Shares and Underlying Shares and Debentures (continued)

Notes: (continued)

- (c) Nitro is an investment holding company established in the Cayman Islands and is a wholly-owned subsidiary of Primavera Capital (Cayman) Fund I L.P.
- (d) According to the disclosure of interests pages as shown in the website of the SEHK as at 30 June 2014, these 263,397,000 shares were held by CITIC Securities Corporate Finance (HK) Limited, a wholly-owned subsidiary of CITIC Securities International Company Limited, which in turn was a wholly-owned subsidiary of CITIC Securities Company Limited. Accordingly, CITIC Securities International Company Limited and CITIC Securities Company Limited were deemed to be interested in these shares pursuant to Part XV of the SFO. Apart from the information ascertained in the disclosure of interests pages as shown in the website of the SEHK, the Company has no further information.

Save as disclosed above, as at 30 June 2014, no person, other than the Directors 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, underlying shares or debentures of the Company that was required to be recorded in the register maintained by the Company pursuant to the Companies Act and Section 336 of the SFO.

(VI) Supplementary Information

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

For the six months ended 30 June 2014, there were no material differences between the consolidated financial statements of the Group prepared under SFRSs and IFRSs (which include all IFRS, International Accounting Standards and Interpretations).

2. *Operational and Financial Risks*

(i) **Market Risk**

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

(ii) **Commodity Price Risk**

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

(iii) **Interest Rate Risk**

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

(iv) **Foreign Exchange Risk**

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

(VI) Supplementary Information (continued)

2. *Operational and Financial Risks (continued)*

(v) **Inflation and Currency Risk**

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.3% in the six months ended 30 June 2014 as compared to an increase of 2.7% in the same period in 2013. Such inflation in the PRC did not have a significant effect on the Group's operating results.

(vi) **Liquidity Risk**

The Group monitors its risk exposure to shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 30 June 2014, approximately RMB544 million (31 December 2013: RMB435 million), or 12.8% (31 December 2013: 12.3%) of the Group's debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

(vii) **Gearing Risk**

The Group monitors its capital ratios in order to support its business and maximise shareholders' value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2013 and 2014. The gearing ratio of the Group as at 30 June 2014 (calculated as net debt divided by total capital plus net debt) was 66.6%, representing an increase of 4.7 percentage points as compared to 31 December 2013. As at 30 June 2014, except for the pledged deposit of RMB329,147,000 (31 December 2013: RMB148,961,000), the Group had no pledge of assets.

3. *Contingent Liabilities*

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

4. *Material Litigation and Arbitration*

As at 30 June 2014, the Group was not involved in any material litigation or arbitration.

5. *Audit Committee*

The audit committee of the Company (the "Audit Committee") has reviewed the accounting principles and standards adopted by the Group, and has discussed and reviewed the internal control and reporting matters. The unaudited interim results for the six months ended 30 June 2014 have been reviewed by the Audit Committee.

(VI) Supplementary Information (continued)

6. *Compliance with the Corporate Governance Code*

The Company recognises the importance of good corporate governance practices, and has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2014, except for code provision A.2.1.

Code provision A.2.1 stipulates that the roles of chairman and chief executive of a listed issuer should be separate and should not be performed by the same individual. Mr. Liu Xingxu has been the Chairman of the Board and Chief Executive Officer since the incorporation of the Company. The Board considers such structure beneficial to the Group as the Board believes that Mr. Liu Xingxu, who has extensive experience in the industry, can provide the Company with strong and consistent leadership and visions and also allows for effective and efficient planning and implementation of business decisions and strategies. He can also ensure timeliness of information flow between the Board and management.

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

7. *Compliance with the HK Model Code*

The Board has adopted the HK Model Code as its own code of conduct regarding securities transaction by the Directors. The Board confirms that, having made specific enquiries with all Directors, during the six months ended 30 June 2014, all Directors have complied with the required standards of the HK Model Code.

8. *Purchase, Sales or Redemption of the Company's Securities*

For the six months ended 30 June 2014, neither the Company nor its subsidiaries have purchased, sold or redeemed any of the securities of the Company.

9. *Employees and Remuneration Policy*

As at 30 June 2014, there were 5,470 (2013: 4,043) employees in the Group. Staff remuneration packages are determined in consideration of market conditions and the performance of the individuals concerned, and are subject to review from time to time. The Group also provides other staff benefits including medical and life insurance, and grants discretionary incentive bonuses to eligible staff based on their performance and contributions to the Group.

10. *Disclosure on the Websites of the SEHK and the Company*

This report is published on the website of the SEHK (<http://www.hkex.com.hk>) and on the website of the Company (<http://www.chinaxlx.com.hk>).

Management Discussion and Analysis

(VI) Supplementary Information (continued)

11. Corporate Communications

In accordance with the Listing Rules, the Company has ascertained shareholders' wishes regarding their preferences on the language (i.e. English and/or Chinese) and means of receipt (i.e. in printed form or via the Company's website) of the Company's corporate communications[#]. Shareholders who have chosen/are deemed to have chosen to receive the corporate communications via the Company's website, and who for any reason have difficulty in receiving or gaining access to the Company's corporate communications will promptly upon request be sent the corporate communications in printed form free of charge. Shareholders have the right at any time to change their choice of language and means of receipt of the Company's corporate communications.

Shareholders may request for printed copy of the Company's corporate communications or change their choice of language and means of receipt of the Company's corporate communications by sending reasonable prior notice in writing to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. Shareholders may also send such a notice by email to chinaxlx-ecom@hk.tricorglobal.com.

Shareholders who have chosen to receive the corporate communications in either English or Chinese version will receive both English and Chinese versions of this interim report since both languages are bound together into one booklet.

[#] The Company's corporate communications refer to any document issued or to be issued by the Company for the information or action of holders of any of its securities, including but not limited to: (a) annual report; (b) interim report; (c) notice of meeting; (d) listing document; (e) circular; and (f) form of proxy.

By Order of the Board
China XLX Fertiliser Ltd.
Yan Yunhua
Executive Director
and Chief Financial Officer

29 August 2014

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2014

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

Details of the dividend paid for the period are disclosed in note 8 to the financial statements.

Condensed Consolidated Statement of Financial Position

30 June 2014

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

Condensed Consolidated Statement of Financial Position

30 June 2014

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2014

Group

| | Issued capital RMB'000 | Convertible bonds RMB'000 | Available- for-sale investment revaluation reserve 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 |
|---|------------------------------|---------------------------------|---|---|--------------------------------|--|--|----------------------------|
| (Unaudited) | | | | | | | | |
| As at 1 January 2014 | 836,671 | 322,436 | 3,622 | 199,295 | 1,089,256 | 60,000 | 2,571 | 2,513,851 |
| Profit for the period | - | - | - | - | 64,082 | - | (1,798) | 62,284 |
| Other comprehensive income for the period: | | | | | | | | |
| Change in fair value of an available-for-sale investment | - | - | 45 | - | - | - | - | 45 |
| Total comprehensive income for the period | - | - | 45 | - | 64,082 | - | (1,798) | 62,329 |
| Transfer to statutory reserve fund | - | - | - | 6,465 | (6,465) | - | - | - |
| 2013 final dividend declared | - | - | - | - | - | (60,000) | - | (60,000) |
| Interests on convertible bonds | - | 7,238 | - | - | (7,238) | - | - | - |
| As at 30 June 2014 | 836,671 | 329,674 | 3,667 | 205,760 | 1,139,635 | - | 773 | 2,516,180 |

| | Issued capital RMB'000 | Convertible bonds RMB'000 | Available- for-sale investment revaluation reserve 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 |
|---|------------------------------|---------------------------------|---|---|--------------------------------|--|--|----------------------------|
| (Unaudited) | | | | | | | | |
| As at 1 January 2013 | 836,671 | 322,436 | - | 167,873 | 931,222 | 63,000 | 7,230 | 2,328,432 |
| Profit for the period | - | - | - | - | 190,871 | - | (1,138) | 189,733 |
| Other comprehensive income for the period: | | | | | | | | |
| Change in fair value of an available-for-sale investment | - | - | 2,933 | - | - | - | - | 2,933 |
| Total comprehensive income for the period | - | - | 2,933 | - | 190,871 | - | (1,138) | 192,666 |
| Capital contribution by a non-controlling interest | - | - | - | - | - | - | - | - |
| 2012 final dividend declared | - | - | - | - | - | (63,000) | - | (63,000) |
| Interests on convertible bonds | - | 7,238 | - | - | (7,238) | - | - | - |
| As at 30 June 2013 | 836,671 | 329,674 | 2,933 | 167,873 | 1,114,855 | - | 6,092 | 2,458,098 |

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

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

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2014

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2014 | 2013 |
| | (Unaudited) | (Unaudited) |
| | RMB'000 | RMB'000 |
| Cash flows from investing activities | | |
| Purchases of items of property, plant and equipment, and land use rights | (784,359) | (840,555) |
| Purchase of an available-for-sale investment | – | – |
| Proceeds from disposal of items of property, plant and equipment | 80 | 533 |
| Increase in bank pledged deposits | (180,186) | (106,600) |
| Net cash flows used in investing activities | (964,465) | (946,622) |
| Cash flows from financing activities | | |
| Proceeds from loans and borrowings | 1,204,775 | 1,262,983 |
| Repayment of loans and borrowings | (478,109) | (542,909) |
| Capital contribution by a non-controlling interest | – | – |
| Dividends paid on ordinary shares | (60,000) | (63,000) |
| Net cash generated from financing activities | 666,666 | 657,074 |
| Net increase/(decrease) in cash and cash equivalents | 419 | (84,624) |
| Cash and cash equivalents at beginning of period | 797,813 | 477,610 |
| Cash and cash equivalents at end of period | 798,232 | 392,986 |

1. Corporate Information

China XLX Fertiliser Ltd. is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited (the “SEHK”). The registered office of the Company is located at 80 Robinson Road, #02-00, Singapore 068898. The principal place of business of the Group is located at Xinxiang High Technology Development Zone (Xiaoji Town), Henan Province, the People’s Republic of China (the “PRC”). The principal activity of the Company consists of investment holding and general trading. The principal activities of the Company’s subsidiaries are the manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution, and coal mining and sales of coal.

2.1 Basis of Preparation

The condensed consolidated interim financial information has been prepared in accordance with Singapore Financial Reporting Standard (“SFRS”) 34 “Interim Financial Reporting” issued by the Singapore Accounting Standards Council and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the SEHK.

The condensed consolidated interim financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2013.

2.2 Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except in the current financial year, the Group has adopted the following standards and interpretations mandatory for annual financial periods beginning on or after 1 January 2014.

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

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

Notes to the Condensed Consolidated Interim Financial Information

30 June 2014

3. Operating Segment Information

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

(i) *Urea*

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

(ii) *Compound fertiliser*

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

(iii) *Methanol*

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

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

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

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

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

3. Operating Segment Information (continued)

Allocation basis

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

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

For the six months ended 30 June 2014

| | Urea (Unaudited) RMB'000 | Compound fertiliser (Unaudited) RMB'000 | Methanol (Unaudited) RMB'000 | Others (Unaudited) RMB'000 | Elimination (Unaudited) RMB'000 | Total (Unaudited) RMB'000 |
|-----------------------------|--------------------------------|--|------------------------------------|----------------------------------|---------------------------------------|---------------------------------|
| REVENUE | | | | | | |
| Sales to external customers | 1,441,627 | 596,003 | 381,261 | 13,729 | - | 2,432,620 |
| Intersegment sales | 140,829 | - | - | 4,390 | (145,219) | - |
| Total revenue | 1,582,456 | 596,003 | 381,261 | 18,119 | (145,219) | 2,432,620 |
| Segment profit/(loss) | 186,053 | 93,123 | 92,076 | 1,812 | - | 373,064 |
| Interest income | | | | | | 6,897 |
| Unallocated other income | | | | | | 9,452 |
| Unallocated expenses | | | | | | (205,584) |
| Finance costs | | | | | | (105,624) |
| Profit before tax | | | | | | 78,205 |
| Income tax expense | | | | | | (15,921) |
| Profit for the period | | | | | | 62,284 |

Notes to the Condensed Consolidated Interim Financial Information

30 June 2014

3. Operating Segment Information (continued)

For the six months ended 30 June 2013

| | Urea (Unaudited) RMB'000 | Compound fertiliser (Unaudited) RMB'000 | Methanol (Unaudited) RMB'000 | Others (Unaudited) RMB'000 | Elimination (Unaudited) RMB'000 | Total (Unaudited) RMB'000 |
|------------------------------|--------------------------------|--|------------------------------------|----------------------------------|---------------------------------------|---------------------------------|
| REVENUE | | | | | | |
| Sales to external customers | 1,239,573 | 490,436 | 230,713 | 4,069 | - | 1,964,791 |
| Intersegment sales | 155,328 | - | - | 2,304 | (157,632) | - |
| Total revenue | 1,394,901 | 490,436 | 230,713 | 6,373 | (157,632) | 1,964,791 |
| Segment profit/(loss) | 319,901 | 70,918 | 14,296 | (336) | - | 404,779 |
| Interest income | | | | | | 5,148 |
| Unallocated other income | | | | | | 4,533 |
| Unallocated expenses | | | | | | (149,105) |
| Finance costs | | | | | | (39,480) |
| Profit before tax | | | | | | 225,875 |
| Income tax expense | | | | | | (36,142) |
| Profit for the period | | | | | | 189,733 |

4. Revenue and Other Income/(Expenses), Net

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

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

| | Six months ended 30 June | |
|----------------|--------------------------------|--------------------------------|
| | 2014 (Unaudited) RMB'000 | 2013 (Unaudited) RMB'000 |
| Revenue | | |
| Sale of goods | 2,432,620 | 1,964,791 |

4. Revenue and Other Income/(Expenses), Net (continued)

| | Six months ended 30 June | |
|--|--------------------------|------------------------|
| | 2014 | 2013 |
| | (Unaudited) RMB'000 | (Unaudited) RMB'000 |
| Other income | | |
| Bank interest income | 6,897 | 5,148 |
| Net profit from sales of by-products | 10,196 | 2,158 |
| Service fee income from related parties | 1,226 | 1,560 |
| Amortisation of deferred grants | 280 | 247 |
| Penalty income | 184 | - |
| Subsidy income | 4,239 | - |
| Others | 1,432 | 2,459 |
| | 24,454 | 11,572 |
| | | |
| | Six months ended 30 June | |
| | 2014 | 2013 |
| | (Unaudited) RMB'000 | (Unaudited) RMB'000 |
| Other expenses | | |
| Loss on disposal of items of property, plant and equipment | (496) | (1,215) |
| Exchange loss, net | (5,315) | - |
| Impairment loss on an available-for-sale investment | - | - |
| Others | (2,294) | (676) |
| | (8,105) | (1,891) |
| Other income, net | 16,349 | 9,681 |

Notes to the Condensed Consolidated Interim Financial Information

30 June 2014

5. Finance Costs

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2014 (Unaudited) RMB'000 | 2013 (Unaudited) RMB'000 |
| Interest on bank loans, overdrafts and other loans, wholly repayable within five years | 105,624 | 71,293 |
| Interest on bank loans, overdrafts and other loans, wholly repayable after five years | - | - |
| Less: interest capitalised | - | (31,813) |
| | 105,624 | 39,480 |

6. Profit Before Tax

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

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

7. Income Tax

The Company is incorporated in Singapore and is subject to an income tax rate of 20% for the six months ended 30 June 2014 (six months ended 30 June 2013: 17%).

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

The Company's subsidiaries in Mainland China are subject to an income tax rate of 25% (2013: 25%). For the six months ended 30 June 2014, one of the subsidiaries was subject to a concessionary tax rate of 15% as it obtained the New/High Technology Enterprise Award.

The major components of income tax expense for the six months ended 30 June 2014 and 2013 are:

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

8. Dividend

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

The Company did not recommend or declare any interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: Nil).

9. Earnings Per Share Attributable to Ordinary Equity Holders of the Company

Earnings per share is calculated by dividing the Group's profit for the period attributable to ordinary equity holders of the Company by the weighted average number of 1,176,000,000 (six months ended 30 June 2013: 1,176,000,000) ordinary shares (inclusive of mandatorily convertible instruments issued during the period) outstanding during the period.

There were no potentially dilutive ordinary shares in existence during the six months ended 30 June 2014 and 2013 and therefore the diluted earnings per share amounts for those periods were the same as the basic earnings per share amounts.

Notes to the Condensed Consolidated Interim Financial Information

30 June 2014

10. Property, Plant and Equipment, Prepaid Land Lease Payments and Coal Mining Rights

During the period, payments for purchases of items of property, plant and equipment, land use rights and coal mining rights and proceeds from disposal of items of property, plant and equipment of the Group amounted to approximately RMB784,359,000 and RMB80,000 (six months ended 30 June 2013: RMB838,722,000 and RMB533,000), respectively.

11. Prepayments

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

12. Available-for-Sale Investment

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|--|---|---|
| NON-CURRENT | | |
| Unlisted equity investment, at cost: | | |
| PRC | 7,500 | 7,500 |
| CURRENT | | |
| Listed equity investment, at fair value: | | |
| Singapore | 8,367 | 8,323 |

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

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

13. Inventories

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

Notes to the Condensed Consolidated Interim Financial Information

30 June 2014

14. Trade and Bills Receivables

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|-------------------|---|---|
| Trade receivables | 46,732 | 9,572 |
| Bills receivable | 10,278 | 3,897 |
| | 57,010 | 13,469 |

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

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

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

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|----------------|---|---|
| Within 1 month | 27,996 | 2,152 |
| 1 to 3 months | 14,710 | 819 |
| 3 to 6 months | 3,377 | 2,372 |
| 6 to 12 months | 189 | 3,990 |
| Over 12 months | 460 | 239 |
| | 46,732 | 9,572 |

15. Cash and Cash Equivalents and Pledged Deposits

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

As at 30 June 2014, the cash and bank balances of the Group denominated in RMB amounted to RMB788,997,000 (31 December 2013: RMB780,942,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

16. Trade Payables

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

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|----------------|---|---|
| Within 1 month | 56,176 | 66,288 |
| 1 to 3 months | 4,503 | 11,115 |
| 3 to 6 months | 23,504 | 4,504 |
| 6 to 12 months | 7,693 | 2,143 |
| Over 12 months | 7,037 | 4,121 |
| | 98,913 | 88,171 |

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

Notes to the Condensed Consolidated Interim Financial Information

30 June 2014

17. Interest-Bearing Bank and Other Borrowings

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

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

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|--|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | 543,956 | 134,983 |
| In the second year | 861,370 | 1,240,756 |
| In the third to fifth years, inclusive | 2,598,195 | 1,590,712 |
| Beyond five years | - | - |
| | 4,003,521 | 2,966,451 |
| Other borrowings repayable: | | |
| In the third to fifth years, inclusive | 5,455 | 6,364 |
| | 4,008,976 | 2,972,815 |

Notes:

- (a) Certain bank loans of the Group were pledged by fixed deposits.
- (b) The loan from the government bears interest at a floating rate of 0.35% (2013: 0.35%) above the market prime lending rate and is not due to be repaid within the next 12 months.

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

18. Major Non-Cash Transaction – Interest Capitalisation

During the period under review, the Group did not have any capitalised interest expenses (2013: RMB31,813,000) to property, plant and equipment.

19. Contingent Liabilities

As at the end of the reporting period, the Group did not have any significant contingent liabilities.

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20. Operating Lease Arrangements

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

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|---|---|---|
| Within one year | 74,672 | 74,672 |
| In the second to fifth years, inclusive | 224,945 | 224,945 |
| After five years | 30,784 | 30,784 |
| | 330,401 | 330,401 |

21. Commitments

In addition to the operating lease commitments detailed in note 20 above, the Group had the following capital and other commitments as at the end of the reporting period:

| | 30 June 2014 (Unaudited) RMB'000 | 31 December 2013 (Audited) RMB'000 |
|-------------------------------------|---|---|
| Capital commitments: | | |
| Contracted, but not provide for: | | |
| Buildings | 320,227 | 380,379 |
| Plant and machinery | 904,258 | 1,144,582 |
| Coal mines | 41,272 | 51,849 |
| | 1,265,757 | 1,576,810 |
| Authorised, but not contracted for: | | |
| Plant and machinery | 426,014 | 1,344,000 |
| | 1,691,771 | 2,920,810 |
| Other commitments: | | |
| Purchases of raw materials | 4,964 | 499 |

22. Related Party Transactions

- (a) In addition to the transactions detailed elsewhere in this interim financial information, the Group had the following transactions with related parties during the period:

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2014 (Unaudited) RMB'000 | 2013 (Unaudited) RMB'000 |
| Sales of electricity, water and steam to: | | |
| – Henan Shenzhou Heavy Sealing Co., Ltd. [#] | 827 | 794 |
| – Xinxiang Xinlianxin Lifting Equipment Co., Ltd. [#] | 8 | 42 |
| – Xinxiang Xinlianxin Chemical Equipment Co., Ltd. [#] | 111 | 74 |
| – Xinxiang Yuyuan Chemical Co., Ltd. [#] | 367 | 477 |
| – Xinxiang Xinlianxin Hotel Co., Ltd. [#] | 118 | 109 |
| Service fee income for provision of calibration and testing services to: | | |
| – Henan Shenzhou Heavy Sealing Co., Ltd. [#] | 3 | 21 |
| – Xinxiang Xinlianxin Lifting Equipment Co., Ltd. [#] | 1 | – |
| – Xinxiang Xinlianxin Chemical Equipment Co., Ltd. [#] | 4 | 6.8 |
| – Xinxiang Yuyuan Chemical Co., Ltd. [#] | 13 | 76 |
| Purchases of raw materials and consumables from: | | |
| – Xinxiang Xinlianxin Gas Products Co., Ltd. [#] | – | – |
| – Xinxiang Xinlianxin Chemical Equipment Co., Ltd. [#] | 11,768 | 10,391 |
| Service fee expenses for provision of lifting services from: | | |
| – Xinxiang Xinlianxin Lifting Equipment Co., Ltd. [#] | 1,773 | 1,685 |
| Operating lease expenses to: | | |
| – Henan Xinlianxin Chemicals Group Co., Ltd. | 1,120 | 240 |
| Service fee expenses to: | | |
| – Xinxiang Xinlianxin Hotel Co., Ltd. [#] | 2,387 | 1,714 |
| – Xinxiang City Eight Mile Gully Resort Co., Ltd. [#] | 255 | 286 |
| Interest expense to: | | |
| – Henan Xinlianxin Chemicals Group Co., Ltd. | – | – |

[#] These companies are subsidiaries of Henan Xinlianxin Chemicals Group Co., Ltd. (“Henan Chemicals”), which has common shareholders with the Company. The Company’s executive directors and executive officers have certain equity interests in Henan Chemicals.

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22. Related Party Transactions (continued)

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

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2014 (Unaudited) RMB'000 | 2013 (Unaudited) RMB'000 |
| Directors' fee | 400 | 400 |
| Salaries and bonuses | 2,995 | 3,440 |
| Contributions to defined contribution plans | 99 | 48 |
| Total compensation paid to key management personnel | 3,494 | 3,888 |

23. Seasonality of Operations

Due to the seasonal weather conditions, the sales of compound fertiliser are subject to seasonal fluctuations, with peak demand in the third quarter of the year.