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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: 01866)

(Singapore Stock Code: B9R)

ANNOUNCEMENT OF UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

The board (the “**Board**”) of directors (the “**Directors**”) of China XLX Fertiliser Ltd. (the “**Company**”) is pleased to announce the unaudited consolidated interim results of the Company and its subsidiary (collectively the “**Group**”) for the six months ended 30 June 2010 as follows:

INTERIM CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

	Notes	Six months ended 30 June	
		2010 RMB'000 (unaudited)	2009 RMB'000 (unaudited)
Revenue	4,5	1,354,460	1,025,378
Cost of sales		(1,142,117)	(876,773)
Gross profit	4	212,343	148,605
Other income and gains	5	9,563	6,169
Selling and distribution expenses		(19,337)	(7,617)
General and administrative expenses		(49,639)	(52,033)
Other expenses		(7,767)	(1,428)
Finance costs	6	(25,668)	(13,830)
Profit before tax	7	119,495	79,866
Income tax expense	8	(21,345)	(15,503)
Net profit attributable to owners of the Company		98,150	64,363
Other comprehensive income for the period			
Loss on hedging instrument		–	(19,776)
Total comprehensive income for the period attributable to owners of the Company		98,150	44,587
Earnings per share attributable to owners of the Company			
Basic (RMB cents)	10	9.8	6.4
Diluted (RMB cents)	10	9.8	6.4

Details of the dividends payable and proposed for the period are disclosed in note 9 to the financial statements.

INTERIM CONSOLIDATED BALANCE SHEET

As at 30 June 2010

	<i>Notes</i>	As at 30 June 2010 <i>RMB'000</i> (unaudited)	As at 31 December 2009 <i>RMB'000</i> (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	<i>11</i>	2,344,955	2,302,013
Land use rights		71,930	71,192
Prepayments	<i>11</i>	30,389	6,515
Investment in unquoted securities		21,778	–
		<hr/> 2,469,052 <hr/>	<hr/> 2,379,720 <hr/>
Current assets			
Inventories		186,893	221,911
Trade receivables	<i>12</i>	8,686	568
Bills receivables	<i>12</i>	33,736	40,708
Prepayments		29,297	58,476
Deposits and other receivables		24,202	36,871
Income tax recoverable		6,790	11,334
Pledged deposits		–	21,173
Cash and cash equivalents		34,560	139,796
		<hr/> 324,164 <hr/>	<hr/> 530,837 <hr/>
Total Assets		<hr/> 2,793,216 <hr/>	<hr/> 2,910,557 <hr/>
Current liabilities			
Trade payables	<i>13</i>	66,562	47,435
Bills payables		–	41,346
Accruals and other payables		132,246	299,500
Due to related parties		1,239	1,517
Income tax payable		–	102
Deferred grants		8,995	8,995
Interest-bearing bank and other borrowings		80,000	110,000
		<hr/> 289,042 <hr/>	<hr/> 508,895 <hr/>
NET CURRENT ASSETS		<hr/> 35,122 <hr/>	<hr/> 21,942 <hr/>

	As at 30 June 2010 RMB'000 (unaudited)	As at 31 December 2009 RMB'000 (audited)
Non-current liabilities		
Accruals	33,445	65,035
Interest-bearing bank and other borrowings	885,000	825,000
Loan from government	10,281	10,152
Deferred tax liabilities	32,381	26,832
	<u>961,107</u>	<u>927,019</u>
TOTAL LIABILITIES	<u>1,250,149</u>	<u>1,435,914</u>
NET ASSETS	<u>1,543,067</u>	<u>1,474,643</u>
Equity attributable to owners of the Company		
Issued capital	836,670	836,671
Statutory reserve fund	94,200	94,200
Retained profits	612,197	514,550
Proposed interim/final dividend	-	29,222
Total shareholders' equity	<u>1,543,067</u>	<u>1,474,643</u>
TOTAL EQUITY AND LIABILITIES	<u>2,793,216</u>	<u>2,910,557</u>

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. CORPORATION INFORMATION

The Company is a limited liability company incorporated in Singapore on 17 July 2006 under the Singapore Companies Act and its shares have been dual primary listed on the Singapore Exchange Securities Trading Limited (the “**SGX-ST**”) and The Stock Exchange of Hong Kong Limited (the “**SEHK**”) on 20 June 2007 and 8 December 2009 respectively. The registered office of the Company is located at 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721. The principal place of business of the Group is located at Xixiang High Technology Development Zone, West Zone, Henan Province, the People’s Republic of China (the “**PRC**”). The principal activity of the Company consists of investment holding. The principal activities of the Company’s subsidiary, namely Henan Xinlianxin Fertiliser Co., Ltd. (“**Henan XLX Fertiliser**”), are manufacturing and trading of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution.

2. BASIS OF PREPARATION

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

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

These financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on the SEHK (the “**Listing Rules**”).

3. ADOPTION OF NEW OR AMENDED SFRSs

The Group has applied the same accounting policies and methods of computation in the financial statements for the current reporting period compared with the audited annual financial statements for the financial year ended 31 December 2009. In addition, the Group also adopted various revisions to the SFRS, which became effective during that period. The said adoption has no significant impact to the financial statements of the Group.

4. SEGMENT INFORMATION

Segment information is presented by way of Group’s primary segment reporting basis, by business segment. In determining the Group’s geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets. No further geographical segment information is presented as the Group’s customers and operations are located in the PRC.

For management reporting purposes, the Group is currently organised into the following three main business operations, which are the basis that the Group reports its primary segment information:

- Manufacturing and sale of urea
- Manufacturing and sale of compound fertiliser
- Manufacturing and sale of methanol

An analysis by principal activity of contribution to the results is as follows:

For the six months ended 30 June 2010	Unaudited					Total RMB'000
	Urea RMB'000	Compound Fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	
REVENUE						
Sales to external customers	960,176	206,997	181,612	5,675	–	1,354,460
Intersegment sales	66,162	–	–	2,864	(69,026)	–
Total revenue	<u>1,026,338</u>	<u>206,997</u>	<u>181,612</u>	<u>8,539</u>	<u>(69,026)</u>	<u>1,354,460</u>
Segment profit/(loss)	190,142	23,646	(1,511)	66	–	212,343
Unallocated expenses, net						(67,180)
Financial expenses, net						(25,668)
Profit before tax						119,495
Income tax expenses						<u>(21,345)</u>
Net profit attributable to the equity holders of the Company						<u><u>98,150</u></u>

For the six months ended 30 June 2009	Unaudited					Total RMB'000
	Urea RMB'000	Compound Fertiliser RMB'000	Methanol RMB'000	Others RMB'000	Elimination RMB'000	
Sales to external customers	778,415	181,140	61,737	4,086	–	1,025,378
Intersegment sales	85,234	–	–	1,861	(87,095)	–
Total revenue	<u>863,649</u>	<u>181,140</u>	<u>61,737</u>	<u>5,947</u>	<u>(87,095)</u>	<u>1,025,378</u>
Segment profit/(loss)	175,151	(2,978)	(21,462)	(2,106)	–	148,605
Unallocated expenses, net						(54,909)
Financial expenses, net						(13,830)
Profit before tax						79,866
Income tax expenses						<u>(15,503)</u>
Net profit attributable to the equity holders of the parent						<u><u>64,363</u></u>

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after deduction of relevant taxes and allowances for returns and trade discounts and the value of services rendered. An analysis of the Group's revenue, other income and gains is as follows:

	Six months ended 30 June 2010 RMB'000 (unaudited)	Six months ended 30 June 2009 RMB'000 (unaudited)
REVENUE		
Sale of goods	1,354,460	1,025,378
OTHER INCOME AND GAINS		
Bank interest income	302	832
Sale of by-products	5,200	750
Service fee income from related parties	678	573
Amortisation of deferred grants	2,990	1,545
Subsidy income	–	1,915
Others	393	554
	9,563	6,169

6. FINANCE COSTS

The Group's finance costs are analysed as follows:

	Six months ended 30 June 2010 RMB'000 (unaudited)	Six months ended 30 June 2009 RMB'000 (unaudited)
Interest on bank loans, overdrafts and other loans, wholly repayable within five years	25,539	18,669
Interest on government loans	129	161
	25,668	18,830
Less: interest capitalized	–	5,000
	25,668	13,830

7. PROFIT BEFORE TAX

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

	Six months ended 30 June 2010 RMB'000 (unaudited)	Six months ended 30 June 2009 RMB'000 (unaudited)
Cost of inventories sold	1,142,117	876,773
Depreciation	81,060	49,811
Amortisation of prepaid land lease payments	834	649
Minimum lease payments under operating leases:		
Land	153	916
Buildings	240	240
	<u>393</u>	<u>1,156</u>
Auditor's remuneration	549	576
Employee benefit expenses:		
Salaries and bonuses	46,778	38,745
Contribution to defined contribution plans	8,153	7,346
Welfare expenses	3,162	1,957
	<u>58,642</u>	<u>48,624</u>
Unrealised exchange loss	576	973
Loss on disposal of property, plant and equipment	3,617	15
	<u><u>3,617</u></u>	<u><u>15</u></u>

8. INCOME TAX EXPENSE

The Company is a limited liability company incorporated in Singapore and is subject to income tax rates of 17% for the six months ended 30 June 2010 (2009: 17%).

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

Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", Henan XLX Fertiliser is entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the following three years. In accordance with the new Enterprise Income Tax Law of the PRC, with effect from 1 January 2008, a unified income tax rate of 25% was applied to both domestic and foreign investment enterprises. Henan XLX Fertiliser had elected the financial year ended 31 December 2007 as the first profitable year for the purpose of determining the tax holiday period. Accordingly, Henan XLX Fertiliser was subject to a concessionary rate of 12.5% for the six months ended 30 June 2010 (2009: 12.5%).

	Six months ended 30 June 2010 RMB'000 (unaudited)	Six months ended 30 June 2009 RMB'000 (unaudited)
Current – Singapore		
Charge for the six months	–	102
Under/(over) provision in prior six months	–	–
Current – PRC		
Charge for the six months	15,796	13,297
Deferred tax	5,549	2,104
	<u>21,345</u>	<u>15,503</u>
Total income tax expense	<u><u>21,345</u></u>	<u><u>15,503</u></u>

9. DIVIDENDS

The Company did not recommend or declare any interim dividend for the six months ended 30 June 2010. No interim dividend was also declared nor paid for the financial period ended 30 June 2009.

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

Earnings per share is calculated by dividing the Group's net profit attributable to shareholders for the six months ended 30 June 2010 by the weighted average number of 1,000,000,000 (2009: 1,000,000,000) ordinary shares in issue during the period.

There were no potential dilutive ordinary shares in existence during the six months ended 30 June 2009 and 2010 and therefore diluted earnings per share amounts are the same as basic earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT AND PREPAYMENTS

The Group's capital expenditure in respect of property, plant and equipment and prepaid land lease payments for the six months ended 30 June 2010 amounted to approximately RMB218 million. The capital expenditure primarily consisted of the followings:

	Six months ended 30 June 2010 RMB'000 (unaudited)
Upgrades of production facilities in Production Plant I and Production Plant II (<i>note 1</i>)	55,000
Construction of Production Plant III (<i>note 2</i>)	96,000
Railway project (<i>note 3</i>)	38,000
Others	29,000
	<hr/>
Total	218,000
	<hr/> <hr/>

Notes:

1. The Group has acquired the land use rights, buildings, vehicles and equipment for the production plant I ("**Production Plant I**") and production plant II ("**Production Plant II**") in August 2007, where the Production Plant I is the first production base of the Group and owns a production projects with designed annual capacity of approximately 323,000 tons of urea, 300,000 tons of compound fertiliser and 40,800 tons of methanol located at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, the PRC, and Production Plant II is the second base of the Group and owns a production projects with the designed annual capacity of approximately 408,000 tons of urea, 300,000 tons of compound fertiliser and 64,600 tons of methanol located at Xinxiang Economic and Technology Development Zone, Qing Long Road East Section, Henan Province, the PRC. The Group has commenced construction of a new compound fertiliser production line in Production Plant II in February 2009 which was completed in August 2009.
2. The construction of production plant III ("**Production Plant III**") was completed in April 2009. Production Plant III is an extension of Production Plant II, which owns a production project with the designed annual capacity of approximately 527,000 tons of urea and 95,200 tons of methanol, located at Xinxiang Economic and Technology Development Zone, Qing Long Road East Section, Henan Province, the PRC.
3. The construction of a railway extension from Xinxiang East Railway Station into Production Plant II to enable the Group to load and unload its products and raw materials directly at the production plants and eliminate the need for arranging for land transportation to and from the railway station.

12. TRADE AND BILLS RECEIVABLES

	As at 30 June 2010 <i>RMB'000</i> (unaudited)	As at 31 December 2009 <i>RMB'000</i> (audited)
Trade receivables	8,686	890
Impairment	–	(322)
	<u>8,686</u>	<u>568</u>
Bill receivables	<u>33,736</u>	<u>40,708</u>

Trade receivables are non-interest-bearing and are normally settled on 30 to 90 days' term. The Group's bills receivables are non-interest-bearing and are normally settled on 90 to 180 days' term. Trade and bills receivables are denominated in RMB.

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

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

	As at 30 June 2010 <i>RMB'000</i> (unaudited)	As at 31 December 2009 <i>RMB'000</i> (audited)
Within 1 month	7,098	513
1 to 3 months	488	54
3 to 6 months	1,100	–
6 to 12 months	–	1
	<u>8,686</u>	<u>568</u>

13. 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:

	As at 30 June 2010 <i>RMB'000</i> (unaudited)	As at 31 December 2009 <i>RMB'000</i> (audited)
Within 1 month	49,742	13,197
1 to 3 months	913	26,198
3 to 6 months	3,213	5,529
6 to 12 months	11,163	607
Over 12 months	1,531	1,904
	<u>66,562</u>	<u>47,435</u>

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

MANAGEMENT DISCUSSION AND ANALYSIS

(I) BUSINESS REVIEW

Revenue

Revenue for the six months ended 30 June 2010 increased significantly by about RMB329 million or 32% from approximately RMB1,025 million for the six months ended 30 June 2009 to approximately RMB1,354 million for the six months ended 30 June 2010. The increase was mainly due to the increase in urea and methanol sales volume and methanol average selling price. The methanol average selling price increased by approximately 24%. The sales volume of urea, compound fertiliser and methanol increased by 37%, 19% and 137% respectively due to increase in production capacity as the Production Plant III and new compound fertiliser line were completed in April 2009 and August 2009 respectively.

Urea

Revenue derived from the sales of urea increased by approximately RMB181.8 million or approximately 23.4% from approximately RMB778.4 million for the six months ended 30 June 2009 to RMB960.2 million for the six months ended 30 June 2010. Such increase was mainly due to the increase in production capacity of urea to approximately 1,250,000 tons upon the commencement of operation of Production Plant III in April 2009 and hence the Group sold about 36.6% more urea for the six months ended 30 June 2010.

Compound fertiliser

Revenue derived from the sales of compound fertiliser increased by approximately RMB25.9 million or approximately 14.3% from approximately RMB181.1 million for the six months ended 30 June 2009 to RMB207.0 million for the six months ended 30 June 2010. Such increase was primarily resulted from the increase in sales volume by about 18.9% for the six months ended 30 June 2010.

Methanol

Revenue derived from the sales of methanol increased by approximately RMB119.9 million or approximately 194.3% from approximately RMB61.7 million for the six months ended 30 June 2009 to RMB181.6 million for the six months ended 30 June 2010. Such increase was mainly due to the increase in average selling price of the methanol in the PRC market in 2010 and increase in methanol sales quantity by about 137.4% for the six months ended 30 June 2010.

Profitability

Overall gross profit margin increased from approximately 14% for the six months ended 30 June 2009 to 16% for the six months ended 30 June 2010 due to the increase in gross profit margins of urea, methanol and compound fertiliser.

Urea

Gross profit margin of urea (excluding service income) increased from approximately 17% for the six months ended 30 June 2009 to 20% for the six months ended 30 June 2010 due to the decline in average cost of sales. Urea average cost of sales reduced by approximately 7% due to the decline in average raw material price and better production efficiency in raw material utilization with the commencement of the production of Production Plant III.

Compound fertiliser

Gross profit margin of compound fertiliser increased significantly from approximately negative 2% for the six months ended 30 June 2009 to positive 11% for the six months ended 30 June 2010. This was mainly due to reduction in average cost of sales by approximately 16%. Gross profit margin of compound fertiliser for the six months ended 30 June 2009 was affected by higher-priced raw materials, Mono-Ammonium Phosphate (MAP), purchased for the year ended 31 December 2008 which had been fully consumed for the year ended 31 December 2009.

Methanol

Gross profit margin of methanol increased significantly from approximately negative 35% for the six months ended 30 June 2009 to negative 1% for the six months ended 30 June 2010. This was due to an increase in average selling prices by about 24% and reduction in cost of sales by about 7%. Methanol average selling prices increased due to higher oil prices and a stronger economy, resulting from better demand in the dimethyl ether (“DME”) and other downstream industries. The legalising of methanol use as a fuel additive also helped to boost demand.

Other income and gains

Other operating income increased by approximately RMB3.4 million or 55% from RMB6.2 million for the six months ended 30 June 2009 to RMB9.6 million for the six months ended 30 June 2010 due mainly to increase in sales of by-products by about RMB4.5 million offset by the reduction in interest income by approximately RMB0.5 million.

Selling and distribution expenses

Selling and distribution expenses increased by approximately RMB11.7 million or 154% from approximately RMB7.6 million for the six months ended 30 June 2009 to RMB19.3 million for the six months ended 30 June 2010. The increase was mainly due to an increase in sales efforts to expand the compound fertiliser customer base which increased selling and distribution cost by about RMB2.2 million. The increase in sales efforts for compound fertiliser was in line with a new compound fertiliser plant completed last year which increased the compound fertiliser capacity to 600,000 tons this year. In addition, starting from the six months ended 30 June 2010, the Group started to incur transportation cost for delivering goods from the plant to railway station and include the transportation cost in our invoice price, contributing to the increase in selling and distribution expenses by about RMB9.3 million.

General and administrative expenses

General and administrative expenses decreased by RMB2.4 million or 5% from approximately RMB52.0 million for the six months ended 30 June 2009 to RMB49.6 million for the six months ended 30 June 2010. The decrease was mainly due to decrease in professional fee by approximately RMB3.4 million arising from the dual listing cost in Hong Kong in 2009, which was offset by the increase in maintenance cost by approximately RMB1.0 million because all our three production plants were shutdown for maintenance purposes in the second quarter of 2010 as compared to only one production plant in the second quarter of 2009.

Finance costs

Finance costs increased by RMB11.9 million or 86% from approximately RMB13.8 million for the six months ended 30 June 2009 to RMB25.7 million for the six months ended 30 June 2010. The increase was due to there being RMB5.0 million interest capitalised in the year ended 31 December 2009 and additional interest-bearing loans and borrowings drawdown to fund the capital expenditures for the six months ended 30 June 2010 such as the construction of Production Plant III.

Income tax expense

Income tax expense increased by approximately RMB5.8 million or 37% from approximately RMB15.5 million for the six months ended 30 June 2009 to RMB21.3 million for the six months ended 30 June 2010 due to higher profits.

Net profit attributable to owners of the Company

The net profit attributable to owners of the Company increased by approximately RMB33.8 million or 53% from RMB64.4 million for the six months ended 30 June 2009 to RMB98.2 million for the six months ended 30 June 2010. This is mainly due to the increase in revenue for urea as a result of the additional production capacity of Production Plant III and higher profit margin by all products especially methanol due to increase in methanol average selling prices by approximately 24%.

(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%.

	As at 30 June 2010 RMB'000 (unaudited)	As at 31 December 2009 RMB'000 (audited)
Due to related companies	1,239	1,517
Trade payables	66,562	47,435
Bills payable	–	41,346
Accruals and other payables	165,691	364,535
Interest-bearing bank and other borrowings	975,281	945,152
Less: Cash and cash equivalents	(34,560)	(139,796)
Less: Pledged deposits	–	(21,173)
	<u>1,174,213</u>	<u>1,239,016</u>
Net debt		
	<u>1,174,213</u>	<u>1,239,016</u>
Shareholders' equity	1,543,067	1,474,643
Less: Statutory reserve fund	(94,200)	(94,200)
	<u>1,448,867</u>	<u>1,380,443</u>
Total capital		
	<u>1,448,867</u>	<u>1,380,443</u>
Capital and net debt	<u>2,623,080</u>	<u>2,619,459</u>
	<u>2,623,080</u>	<u>2,619,459</u>
Gearing ratio	<u>44.8%</u>	<u>47.3%</u>

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

Loans

Amount payable in six months or less, or on demand

	As at 30 June 2010		As at 31 December 2009	
	Secured RMB'000 (unaudited)	Unsecured RMB'000 (unaudited)	Secured RMB'000 (audited)	Unsecured RMB'000 (audited)
Bank loans	–	80,000	–	110,000
	<u>–</u>	<u>80,000</u>	<u>–</u>	<u>110,000</u>

Amount payable after six months

	As at 30 June 2010		As at 31 December 2009	
	Secured <i>RMB'000</i> (unaudited)	Unsecured <i>RMB'000</i> (unaudited)	Secured <i>RMB'000</i> (audited)	Unsecured <i>RMB'000</i> (audited)
Bank loans	120,000	765,000	120,000	705,000
Loan from government	–	10,281	–	10,152
	<u>120,000</u>	<u>775,281</u>	<u>120,000</u>	<u>715,152</u>

Details of collateral

As at 30 June 2010, the Group has total of RMB120.0 million long-term loans are guaranteed by Xinxiang Xinya Paper Group Ltd.

(III) PROSPECTS

We expect average urea prices to remain stable in the second half year of 2010. This is because the average selling price is close to the average urea production cost of the industry. Hence, many urea producers are now breaking even at current prices with many small and inefficient urea producers shutting down due to losses. Average industry production utilization rate is now about 70%. Third quarter is normally a seasonal peak for urea application and exports should increase in the third quarter of 2010 as urea export tariff reduces from 110% to 7% during the July to mid-September period in 2010. International urea prices had also rebounded from its low in early June 2010. The amount of exports would depend on international prices and the RMB exchange rate. The amount of increase if any in domestic prices would still be affected by current domestic oversupply conditions. As for coal prices, we expect coal prices to remain stable with possible increase in the fourth quarter of 2010 due to winter season.

Whilst average methanol prices declined in the second quarter of 2010 as compared to the first quarter of 2010, we still expect the average selling price of methanol for the year ended 31 December 2010 to be higher than that of the year ended 31 December 2009 due to better demand from the downstream industries such as from the DME industry, etc. The use of methanol as a fuel additive should also boost demand for the year ended 31 December 2010.

As farmers become more sophisticated and increasingly use more compound fertilisers, we expect demand for compound fertilisers to strengthen. The third quarter is a seasonal peak for compound fertiliser application.

Overall, our Directors are optimistic over the prospects for 2010 as compared to 2009. Our overall cost efficiency in 2010 are expected to be better than 2009 after the commencement of production of Production Plant III in April 2009 and the completion of upgrade in Production Plant I in February 2010. Our Directors are also hopeful over the strong agricultural government policies such as subsidies to farmers which should support the long term development in the fertiliser industry.

Whilst we are already one of the largest and most efficient urea producers in the PRC, our next step is to improve our competitiveness by exploring more advanced technologies to further lower our production cost and increase capacities.

(IV) SUPPLEMENTARY INFORMATION

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

For the six months ended 30 June 2010, there were no material differences between the consolidated financial statements of the Group prepared under SFRSs and IFRSs (which include all IFRS, International Accounting Standards and Interpretations).

2. Operational and Financial Risks

(i) Market Risk

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

(ii) Commodity Price Risk

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

(iii) Interest Rate Risk

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

(iv) Foreign Exchange Risk

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

(v) Inflation and Currency Risk

According to the data released by the National Bureau of Statistics of China, the consumer price index of the PRC increased by 2.6% for the six months ended 30 June 2010 as compared to a decrease of 1.1% for the same period in 2009. Such inflation in the PRC did not have a significant effect on the Group’s operating results.

(vi) Liquidity Risk

The Group monitors its risk exposure to shortage of funds. The Group considers the maturity of both its financial investments and financial assets (e.g., trade receivables and other financial assets) and projected cash flows from operations. The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts and bank loans. As at 30 June 2010, approximately RMB80.0 million (31 December 2009: RMB110.0 million), or 8.2% (31 December 2009: 11.6%) of the Group's debts will mature in less than one year based on the carrying value of the borrowings reflected in the financial statements.

(vii) Gearing Risk

The Group monitors its capital ratios in order to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may raise new debt or issue new shares. No changes were made in the objectives, policies or processes for managing capital in 2009 and 2010. The gearing ratio of the Group as at 30 June 2010 (calculated as net debt divided by total capitalisation plus net debt) was 44.8%, representing a decrease of 2.5% as compared to 31 December 2009. As at 30 June 2010, the Group had no pledge of assets.

3. Contingent Liabilities

As at 30 June 2010, the Group has no material contingent liabilities (2009: Nil).

4. Material Litigation and Arbitration

As at 30 June 2010, 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 interim results for the six months ended 30 June 2010 have been reviewed by the Audit Committee.

6. Compliance with the Code on Corporate Governance Practices

The Company devotes to best practice on corporate governance, and has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules for the six months ended 30 June 2010.

7. Compliance with the Model Code for Securities Transactions by Directors of Listed Issuer

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “**Model Code**”) as set out in Appendix 10 of the Listing Rules and its amendments from time to time 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 2010, all Directors have complied with the required standards of the Model Code.

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

For the six months ended 30 June 2010, neither the Company nor its subsidiary has purchased, sold or redeemed any of the securities of the Company.

9. Employees and Remuneration Policy

As at 30 June 2010, there were 3,353 (2009: 3,302) 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 and share options to eligible staff based on their performance and contributions to the Group.

10. Disclosure on the Website of the SEHK

This announcement shall be published on the website of the SEHK (<http://www.hkex.com.hk>) and on the website of the Company (<http://www.chinaxlx.com.sg>) in due course.

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

Hong Kong, 29 July 2010

As at the date of this announcement, the executive Directors are Mr. Liu Xingxu, Ms. Yan Yunhua and Mr. Li Buwen; and the independent non-executive Directors are Mr. Ong Kian Guan, Mr. Li Shengxiao and Mr. Ong Wei Jin.

* *for identification purpose only*