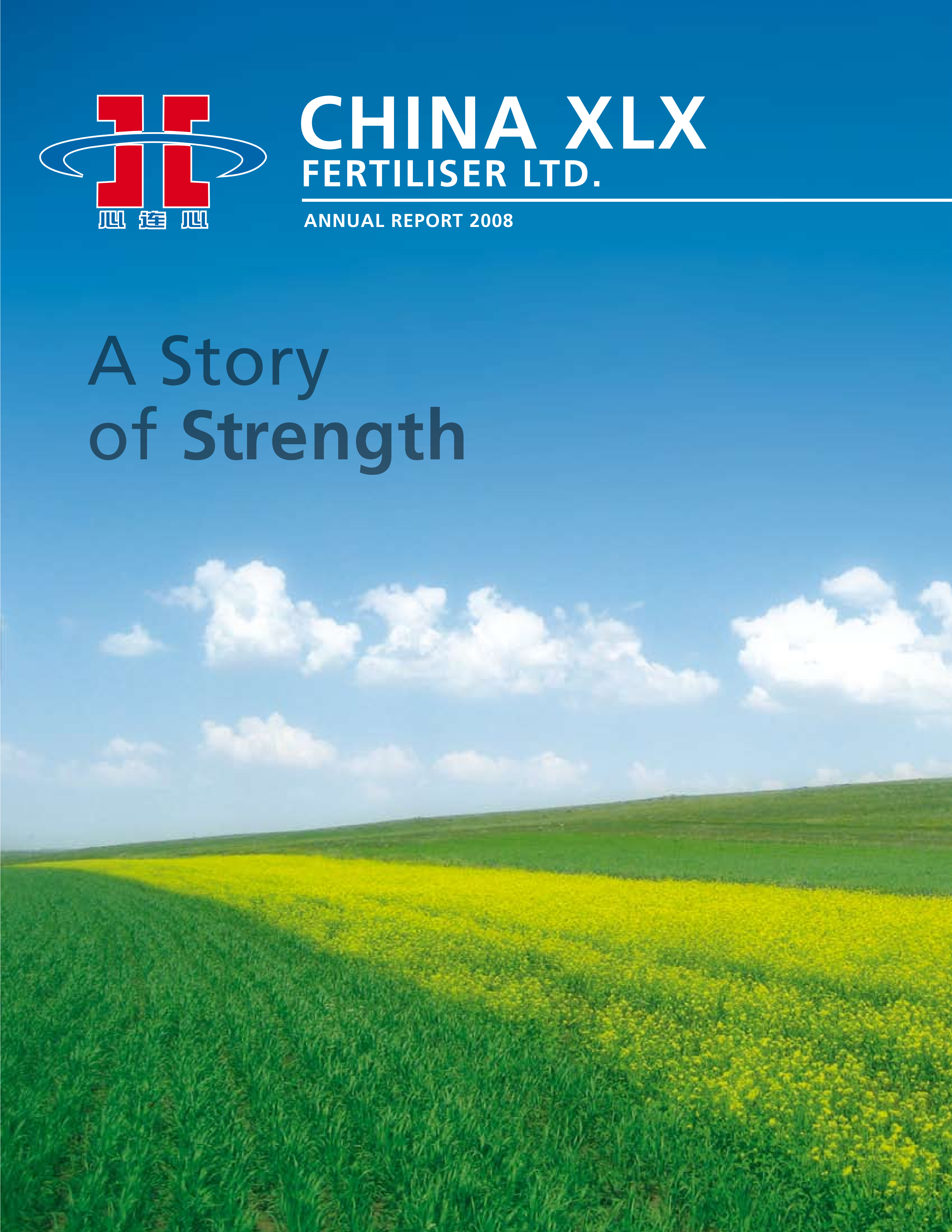
CHINA XLX FERTILISER LTD.

心连心

ANNUAL REPORT 2008

A Story of **Strength**



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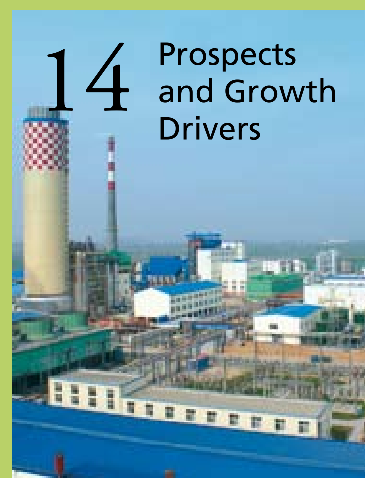


China XLX Fertiliser Ltd.

compound fertiliser

urea


methanol

We are one of the largest, most efficient coal-based producers of urea and compound fertiliser in the PRC.

XLX

- "XLX", which is the acronym of the Chinese phrase "心连心", means "heart to heart" in English. China XLX mission is to cultivate "A Better Tomorrow" for its stakeholders such as shareholders, customers, employees, environment, etc.

WHERE WE ARE

- Sixth largest and fourth most efficient coal-based urea producer in the PRC
- Listed in Singapore SGX-ST mainboard on 20 June 2007

OUR PRODUCTION CAPACITY

- Two existing production plants with current annual production capacity of 720,000 tons for urea, 300,000 tons for compound fertiliser and 100,000 tons for methanol
- Third production plant under construction with annual production capacity of 400,000 tons for urea, and 50,000 tons for methanol. New 300,000 tons compound fertiliser production line to be built in second plant

KEY STRENGTHS

- Two existing production plants strategically located in Xinxiang, Henan Province
- Located near to suppliers- only about 150 kilometres away from the main coal mines in Shanxi Province, lowering transportation costs
- Located near to customers as Henan is epicenter of agriculture in the PRC
- Adopted all 18 advanced technologies recommended by the State Ammonia Association to improve cost efficiency. We use about 10% less coal and 20% less electricity as compared against the industry average respectively
- A highly motivated workforce of about 3,100 including over 500 mid to highly-skilled technical personnel with staff turnover less than 1%. Out of the 2,600 workers, about 1,000 are shareholders of the Company
- Urea book orders secured by 5-year contract with Sinofert (largest fertiliser distributor in the PRC) and non-binding MOUs
- Net gearing at only 37% and long-term loans account for about three quarters of total borrowings.

OUR ACHIEVEMENTS

- Corporate Awards: "全国石油化工肥料制造业百强企业", "河南省明星民营企业", "河南省管理创新最佳单位", and "河南省诚信纳税大户"
- Corporate Certifications: ISO09001:2000 and ISO014001: 2004
- Well-known "心连心" brand and trademark awarded "河南省名牌产品" and "河南省著名商标"

OUTLOOK

- Whilst many uncertainties exist for the fertiliser industry in China, fertilisers will still play an important role in a nation of 1.3 billion people, accounting for a quarter of the world's population but only covering 7% of the world's arable land. Fertilisers will still remain a necessity with demand being relatively inelastic and resilient despite current economic outlook.
- China XLX will remain focused on increasing its size, capturing greater market share and reducing cost, thereby improving its industry position.

A Story of Strength

DEAR SHAREHOLDERS:

2008 was a rollercoaster year for the fertiliser industry. It first started as a food crisis, leading to a commodity boom, but ended with a financial crisis which decreased commodity prices.

Despite such trying circumstances, China XLX still managed to deliver satisfactory results. Our FY2008 results increased by 9% to RMB346m and we are proposing dividends of SGD1.6 cents per share which is an increase from SGD1.4 cents per share a year ago, fulfilling our promise to payout at least 20% of our net profits for the initial three years after listing.

WEATHERING THROUGH DIFFICULTIES

In 1Q2008, the industry faced one of the worst snow storms in history. In many parts of the country, infrastructure was crippled and many producers faced challenges obtained coal inputs due to delivery constraints and shortages of coal. Fortunately, the Group is strategically located in central China where there was little impact from the snow storm and we had ensured that we had sufficient coal reserves of about 30-50 days during the winter months. Although coal prices had risen significantly in 1Q2008, our urea margins had even increased as compared to 4Q2007 as average urea selling prices increased more than the coal price increase.

In May 2008, China encountered one of its worst earthquakes in history in Sichuan province. About 10% of urea production is based in Sichuan. Fortunately, our plants are in Henan, about 1000km away from Sichuan and hence were not affected by the earthquake.

In 3Q2008, many areas in China faced shortage of coal and rationing in electricity supply due to the Olympics. This led to many producers having to shut down their plants due to lack of coal or electricity supply. Fortunately, we were able to ensure stable supply of coal because of the proximity of the coal mines to our plants and good relationship we had built with our coal suppliers over the many years. We have entered into framework contracts with over 10 suppliers for about 70% of our coal requirements until FY2009 and increased the number of coal suppliers to more than 20. The Group had also been able to ensure stable and sufficient supply of electricity because we have our own power generator systems in addition to the electricity that we purchase from the grid.

DELIVERING SATISFACTORY RESULTS

The Group was able to still deliver satisfactory results amidst the challenges because of our ability to be cost efficient. Cost efficiency is the main competitive strategy that one must adopt in the urea industry as urea lack product differentiation and producers are generally price-takers in the fragmented PRC market.

We attribute our cost efficiency to our ability to significantly reduce our coal and electricity costs which makes up more than 70% of our urea/methanol production costs. We are competitive for the following reasons. Firstly, we enjoy economies of scale as the largest coal-based urea producer in Henan and sixth largest coal-based urea producer in the PRC. Secondly, our strategic location in Henan is very near the coal mines, enabling us to lower our coal transportation costs. Thirdly, by adopting fully-automated techniques, advanced technologies, and effective management, we consumed about 10% less coal and 20% less electricity.

CHALLENGING TIMES AHEAD

Whilst many uncertainties exist for the fertiliser industry in China, fertilisers will still play an important role in a nation of 1.3 billion people, accounting for a quarter of the world's population but only accounting for 7% of the world's arable land. Fertilisers will still remain a necessity with demand being relatively inelastic and resilient despite current economic outlook.

The PRC government remains supportive over the agriculture sector in China. For instance, the government supports the farmers with more subsidies and allowed the change of land use rights which we believe is expected to increase farmers' purchasing power. The government has also supported the fertiliser industry which is the backbone of the agriculture sector. For instance, the government recently lifted the urea price cap of RMB1,725/ton while allowing current subsidies to remain. This will promote the growth of the fertiliser industry.

STAYING FOCUSED

Despite the challenges, our Group will remain focused on increasing our size, strength and thereby our relative position amidst an industry consolidation which have started to see many small inefficient producers starting to shut down in late 2008.

We expect to see increased urea sales quantities after our third urea plant is completed which will expand our annual urea and methanol capacity by 400,000 and 50,000 tons respectively to reach a total annual production capacity of 1.1 million tons urea and 150,000 tons methanol by the end of the year. This will make us the fifth largest coal-based urea producer in the PRC. In addition, we are building a 300,000 tons compound production facility in our second plant which will increase the total annual production capacity to about 600,000 tons by the end of this year.

The Group will also remain focused on increasing its cost efficiency even further despite being already the fourth most efficient coal-based urea producer in the PRC. Firstly, we will be upgrading our first urea plant to be as efficient as the second plant. The more advanced equipment in the third plant will also increase the cost efficiency in future. Secondly, we will also be building a dedicated railway track to link our second and third plant to Xinxiang East Railway Station which is expected to reduce the transportation cost for inbound raw materials and outbound finished goods by about RMB18 per ton.

PRUDENT FINANCIAL MANAGEMENT

While building on our strength and expanding our current capacities, I would like to reassure that the Group will maintain prudent financial management practices to ensure that our liquidity risks are well managed.

Despite current liquidity crisis, we managed to obtain a USD45 million syndicated loan facility offshore and about RMB325 million of fresh facilities onshore last year. After the year end, banks continue to provide us facilities readily such that our current unused credit amounted to more than 500 million, sufficient to fund our capital expenditures requirements in 2009.

We have also reduced our short term liquidity risks by refinancing our short term borrowings with long term borrowings already. The composition of long-term borrowings to total loans increased from 24% in December 2007 to about 75% in December 2008. Our gearing ratio remains manageable at 37% as at December 2008.

ACKNOWLEDGEMENTS

FY2008 was indeed a challenging year for China XLX. Despite the challenges, we continued to remain strong. I owe our achievements to the people who had supported us and helped us grow.

I would like to take this opportunity to thank all our board members who have shared their experience and expertise to take our Group to new heights. I also wish to thank our management team and staff for their dedication and hard work. Last but not least, I would like to express my deepest gratitude to you, our shareholders, for your continued support. Together, I believe we can deliver an even better performance for a better tomorrow.

Mr Liu Xingxu
Chairman and CEO

Global and Industry Challenges

Fertilisers exert a great influence in sustaining the growth of agriculture in the PRC, a predominantly agriculture country. According to the Food and Agriculture Organisation of the United Nations, 55% of crop yield increase in developing countries is attributed to the use of fertilisers, with crop yield increasing 7.5kg with every kilogramme of fertiliser used.

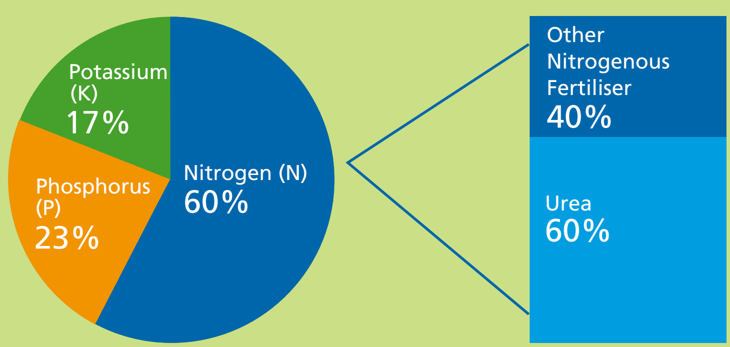
There is strong demand for chemical fertilisers in the PRC which is inhibited by 20% of the world's population but only has 7% of the world's arable land. Organic fertilisers only supplies about 1% of the countries demand for fertilisers. It is therefore not surprising that the PRC is the largest producing and consuming nation for chemical fertilisers as it is vital for the country to be self-sufficient in fertilisers. In 1960s, China had only had a population of about 600 million. But about 30 million died due to starvation due to insufficient fertilisers to support the country's increasing population growth. Today, the PRC has growth to a population of about 1.3 billion people. But due to China's self-sufficiency in chemical fertilisers, very few actually die of starvation today.

There are 3 main types of chemical fertilisers based on the nutrients that the soil needs. They are Nitrogen (N), Phosphorous (P) and Potassium (K) to support the stem, root and fruit growth respectively.

Nitrogenous fertilisers are used most extensively with urea being the most commonly used nitrogenous fertiliser due to its high nitrogen content. Urea accounts for about 60% of all nitrogenous fertilisers used in the PRC. In 2008, according to the International Fertiliser Association, the PRC produced about 56 million tons of urea, consuming about 52 millions tons domestically and exporting about 4 million tons.

The urea industry in China is very fragmented with about 200 producers and the largest accounting for only about 3% of the nation's market share.

About three quarters of the 200 urea producers are small and inefficient. In 2008, the industry faced many challenges such as high coal prices which affected about 80% of urea producers that are coal-based.



Agriculture forms the foundation of the PRC's economic growth and the fertiliser industry plays an important role.

Coal prices increased about 50% in 2008, resulting in the shutting down of many small, inefficient producers due to their higher cost structures. Even though the larger, especially gas-based producers are less affected, the government has introduced measures to restrict any more green fields by gas means, which is expected to result in learning curve when the gas-based producers expand via coal means.

Therefore cost becomes the key differentiating factor amongst fertiliser producers Amidst such an industry consolidation, it will only be the fittest that will survive. As such, mid to large enterprises that enjoy proximity to resources, are technologically advanced have low consumption levels will be at an advantage and stand to gain from development opportunities.

China XLX is well positioned as the lowest cost coal-based producer of urea in Henan and the 4th largest coal-based producer of urea in the PRC. It is strategically located in Henan, close to the main coal mines in Shanxi and yet at the epicenter of the agricultural belt in the PRC. In addition to its strategic location, China XLX achieves superiority over its competitors by using technological advanced equipment and processes which enables us to use about 10% less coal and 20% less electricity than the industrial average in the PRC.

China XLX will continue to grow in its size and strength to increase its position as a rising star in the coal-based chemical industry, which in 2008 was ranked amongst the "Top 100 coal-based chemical fertiliser company in the PRC" .

SIGNIFICANT EVENTS

Feb 08

New power generator systems in first and second plant becoming operational

Apr 08

Commencement of construction of third urea plant to increase urea and methanol production capacities by 400k and 50k tons annually

Jan 09

Ms Yan receiving the China outstanding CFO contribution award

Feb 09

Vice Premier Zhang Dejiang visits China XLX

Feb 09

Commencement of construction of new compound fertiliser line in second plant to increase compound fertiliser production capacity by 300k tons annually

Mar 09

Commencement of dedicated railway line to second plant

OUR PRODUCTS

Fruits of our Labor

All our products are sold under the 心连心 (“Xinlianxin”) brand, renowned for its quality in the PRC

UREA

- High concentrated nitrogenous fertiliser to support own growth
- Serves as a raw material for products such as agricultural fertilisers, plastic, resin, coating materials and pharmaceuticals

COMPOUND FERTILISER

- Includes nitrogen, phosphorus & potassium, based on the nutrients that the soil needs
- Phosphorus and potassium are used to support the crop’s root and fruiting function respectively.
- Suitable for the growing of wheat, paddy, corn, peanuts, tobacco, fruit trees, vegetables and cotton

METHANOL

- Not a fertiliser
- It is produced as part of production process to lower cost of urea production
- Widely used in the industrial production of formaldehyde, Dimethoxymethane “DME”, synthetic fibre, plastic, pharmaceutical, pesticides, dye and synthetic protein

OPERATIONS REVIEW

The Group's main product is urea, which accounts for about 56% of our total revenue as urea is the most commonly used fertiliser in the PRC. Compound fertiliser accounts for about 34% while methanol constitutes the remaining 10% of our sales mix.

Both urea and compound fertilisers are chemical fertilisers used to enrich the nutrients in the soil. Methanol is produced & widely used in the downstream chemical industry such as DME & Formaldehyde production.

Urea [CO(NH2)2] is the primary fertiliser widely used by the agricultural industry in the PRC & it has the highest nitrogen content (46.3%) amongst all nitrogenous fertilisers.

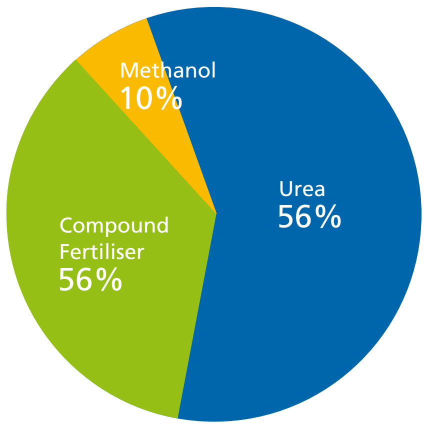
Nitrogenous fertilisers account for about 64% of all fertilisers used in the PRC. Of this, urea constitutes over 60% of all nitrogenous fertilisers. As the PRC's policies on the fertiliser industry undergo a revamp, the demand and use of urea is expected to sustain a growth of 5 - 10% in the next three to five years. Agriculture forms a cornerstone of the PRC's economy, which consequently cements the strategic position of the urea industry. Furthermore, the government's progressive agricultural policies have brought about an environment conducive for the urea industry to grow. (Source: CNCIC Report) China is the largest fertiliser consuming country, accounting for about 45% of world urea consumption in 2007.

In 2008, the PRC produced a total of 54 million tons of urea, consuming about 48 million tons and exporting about 5 million tons. China XLX produced about 740k tons, sold 662k tons and used 78k tons for the production of compound fertiliser. Urea sales amounted to RMB1.1 billion, an increase of 22% as compared to FY2007. Increase was due to an increase in average selling prices by 9% when urea price prices reached its price ceiling for the first three quarters in FY2008. In addition, urea sales quantity increased about 12% due to effective promotion efforts and about 21k tons of additional urea produced in FY2008.

Compound fertiliser include all the nutrients that soil needs: Nitrogen, Phosphorus and Potassium. The composition of each mineral need to be customised to suit the demands of different types of soil and crops so as to achieve optimal agricultural production yield.

Compound fertilisers can be categorised into low concentration compound fertilisers and high concentration compound fertilisers. Our Group mainly produces high concentration compound fertilisers. According to the CNCIC report, there are about 4,000 compound fertiliser producers in the PRC at the end of 2006. The PRC's total production volume of compound fertilisers increased by approximately 25% to over 40 million tons in 2006 as compared to 2005, 23.7% of which comprises of high concentration compound fertilisers. The Group is ranked first in Henan based on its current high concentration compound fertiliser capacity of 300k tons annually. According to the CNCIC report, the demand for high concentration compound fertilisers for exceeded its supply in Henan in 2005. Henan produced 1.7 million tons of high concentration compound fertilisers in 2005. This compared to 3.0 million tons consumed in Henan in 2005. In 2008, we produced 253k tons of high concentration compound fertiliser products, attained sales volume of 251k tons, realised sales of RMB708 million and tripling compound fertiliser gross profits from FY2007, despite no increase in capacities. This was due to increased sales quantities and average selling prices led by strong demand as more farmers started using compound fertiliser when prices of phosphate and potash fertilisers increased drastically in FY2008. Secondly, our Group increased the sales efforts for compound fertiliser by promoting the XLX brand and providing value-added service of customizing the nutrients of compound fertiliser based on soil requirements via our farmers' service centre which is the largest facility in Henan. This resulted in the increase of our capacity utilization rate from an average of 70% to about 84%, much higher than the 40% average industry utilization according to CNCIC.

Methanol is a fourth important type of organic industrial chemical after ethylene, propylene and benzene.

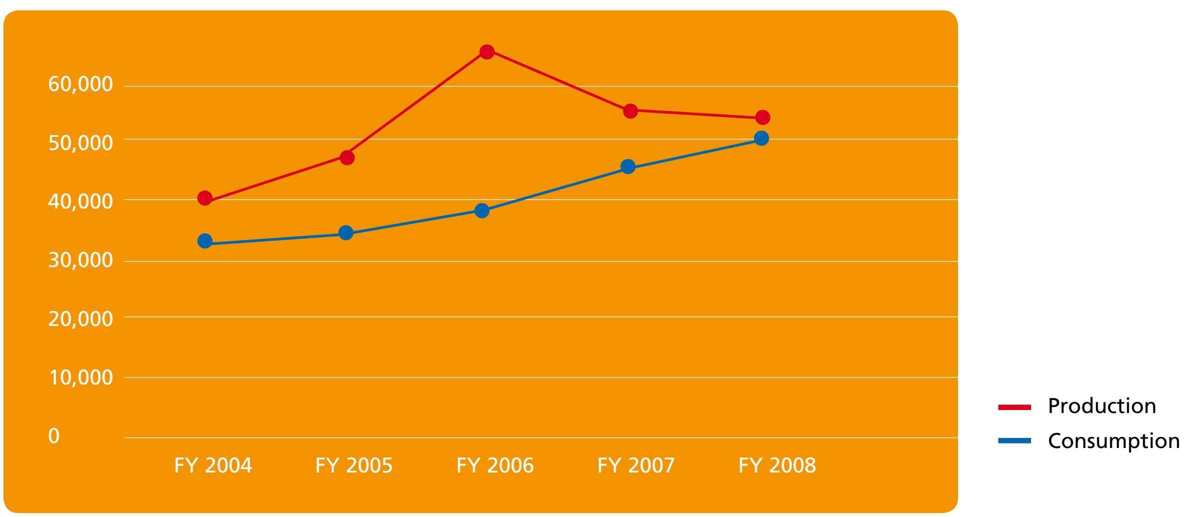


Over a hundred other industrial chemical products are derived from methanol and are widely used in medicine, agriculture chemicals, dyeing, coating, plastics, synthetic fibres, synthetic rubbers, solvents as well as fuel for industrial and domestic use.

With the development of the global chemical industry and booming economic growth in the PRC and the Asia-Pacific region, the methanol market has been rapidly expanding. In recent years, the PRC has been advocating the development of methanol products as an alternative to petroleum fuel. In addition, the successful development of methanol batteries have forged a new market and opened opportunities to further develop methanol products.

The concurrent production of methanol by the nitrogenous fertiliser industry is in line with the government's initiative to consolidate the use of resources. As it is investment-friendly, effective, saves energy and environmentally friendly, 161 out of 500 nitrogenous fertiliser enterprises also produce methanol. Their combined production capacity comprises 48.9% of total capacity of methanol in the PRC. There are about 30 methanol producing enterprises in Henan, producing 1.7 million tons of methanol per year. The Group is a leading methanol producer, ranked second in Henan.

In 2008, we sold 88k tons and realised sales of about RMB215 million or 10% of total sales. Gross profit from methanol products was negative in FY2008 due to decline in methanol average selling prices in the second half of FY2008 due to oil price decrease, resulting in most plants solely producing methanol to shut down at the end of the year. However, the Group uses methanol for the purpose of reducing the cost of urea production cost. Hence, it will have to continue producing methanol as part of its production process.



Source: International Fertiliser Association

FINANCIAL ANALYSIS

FINANCIAL RESULTS

The net profit attributable to shareholders increased approximately RMB29.2 million or 9.2% from RMB317.2 million in FY2007 as compared to RMB346.4 million in FY2008. This was mainly due to the increase in revenue led by higher average selling prices of urea, methanol and compound fertiliser, increased sales volume of urea and compound fertiliser and the urea service income.

However, overall gross profit margin reduced from 27.0% in FY2007 to 23.4% in FY2008 due to reduced gross profit margins in urea and methanol sales. Gross profit margin for urea reduced 9.9% from 31.5% in FY2007 to 21.6% in FY2008. Although average selling prices for urea increased 9.1% from RMB1,565/ton in FY2007 to RMB1,707/ton in FY2008, the average cost of sales per unit increased 24.9% due to higher coal prices. Coal prices in our cost of sales increased about 48.7% in FY2008 as compared to FY2007 due to the commodity boom in the first 9 months of FY2008 and coal supply shortage during the Olympics period in August and September 2009 when most small mines shut down. This increased the Group's production coal purchase price from RMB800/ton in Jan 2008 to its peak of RMB1,350/ton in August and September 2008. But coal prices has since declined to about RMB1,000/ton in December 2008. Whilst coal prices increased, the Group had been able to increase the cost efficiencies especially for the new plant that began operations in September 2006. The amount of coal/electricity used in the old and new plants had reduced by about 2% and 4% respectively in FY2008 as compared to FY2007.

FINANCIAL POSITION

Net assets increased from RMB1.1 billion as of 31 December 2007 to RMB1.4 billion as of 31 December 2008. Fixed assets and prepayments increased by about RMB865 million largely due to the construction of the third plant and upgrade of existing plants. Hedging reserve amounted to RMB20 million as at 31 December 2008. This pertained to a cash flow hedge we entered into to hedge a 3-year USD45 million LIBOR floating rate loan obtained in 3Q2008.

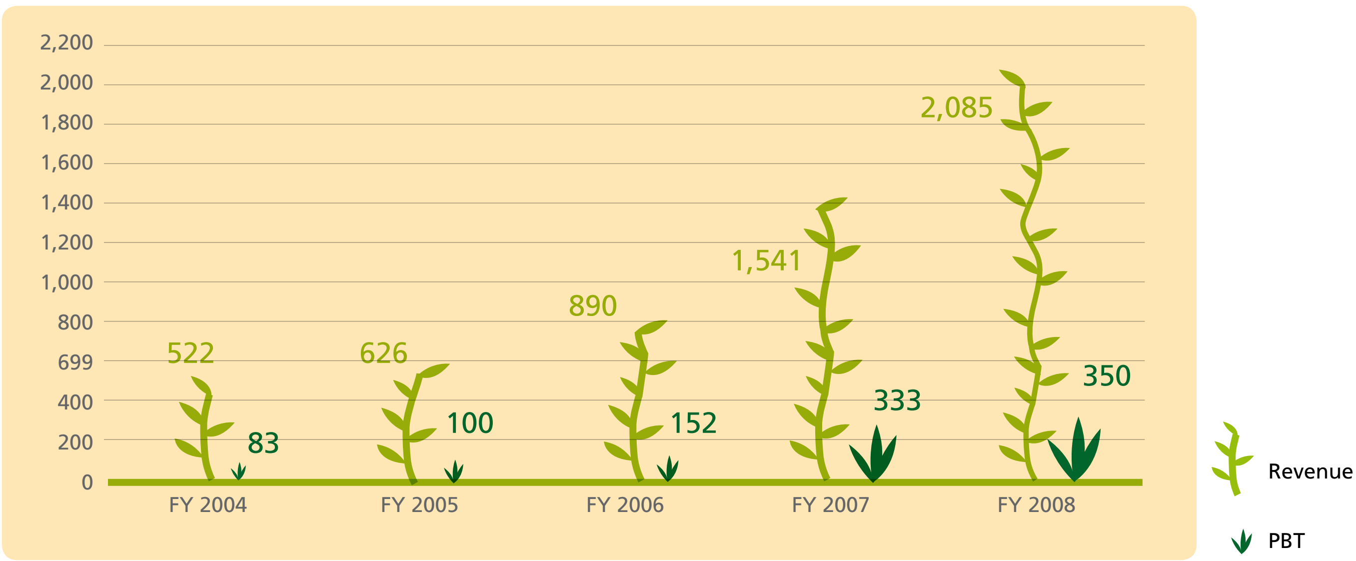
CASH FLOW

Cash and cash equivalents decreased by RMB307 million in FY2008. The decrease was mainly due to purchase of property, plant and equipment and land use rights of approximately RMB901 million. This comprises about RMB650 million paid for the new urea plant currently still under construction, RMB205 million for upgrade in both existing plants, RMB23 million for compound fertiliser and RMB21 million for land use rights. In addition, dividend payment amounted to RMB72 million and the repayment of loans amounted to RMB352 million. The decrease in cash and cash equivalents was partially offset by cash generated from operations of approximately RMB369.6 million and proceeds from bank borrowings and related party loans of RMB642.6 million.

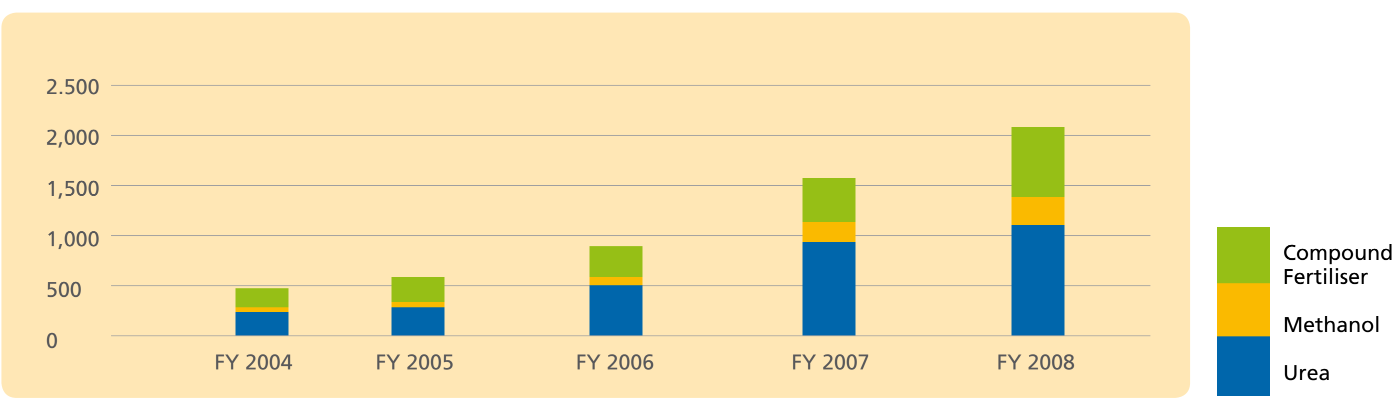
Financial Snapshot

RMB Million	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Revenue	522	626	890	1,541	2,085
GP	131	151	212	416	488
GP Margin	25.0%	24.1%	23.8%	27.0%	23.47
PBT	83	100	152	333	350
PAT	69	69	129	317	346
NP Margin	13.2%	11.0%	14.5%	20.8	16.67
Total Assets	473	731	579	1,833	2,482

Growing Revenue & Profits
RMB Million



Revenue by Product
RMB Million



OUR CORE COMPETITIVENESS

Securely rooted

1 Cost Superiority

Cost is the key differentiating factor amongst chemical fertiliser producers. We are the 4th lowest cost and 6th largest coal-based producer of urea in the PRC in terms of total cost and in terms of production capacity respectively .

According to CNCIC, our total cost of producing urea is about 23% less than the industry average in China due to the following factors:

Coal

Coal constitutes about 50% of our costs.

PRICE Our input prices are about RMB 100/ton less due to lower transportation cost because of the close proximity to coal mines in Jincheng, just 150km away from our plants. Due to our strategic location in Henan, we are more efficient than even the other larger producers.

QUANTITY With more advanced technology, we use about 10% less coal for each ton of urea produced compared to other producers. In addition, we have sealed long-frame contracts with our suppliers to supply 70% of our coal requirements.

Electricity

Electricity constitutes about 25% of our costs.

QUANTITY With more advanced technologies, we use about 20% less electricity for each ton of urea produced compared to other producers.

2 Product Reputation & Quality

our "心连心" brand was awarded Henan Province well-known Trademark since 2004. This is endorsement of our product quality and company reputation which often enables us to price slightly above the market rate. In the same year, we were also honoured to be ranked as one of the Top 100 companies in Henan due to our size, reputation and environmental protection efforts.

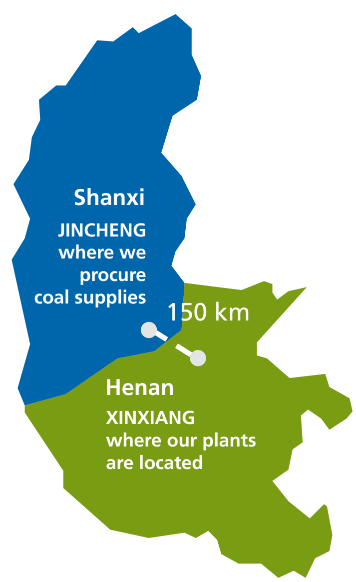
3 Environmental Protection Superiority

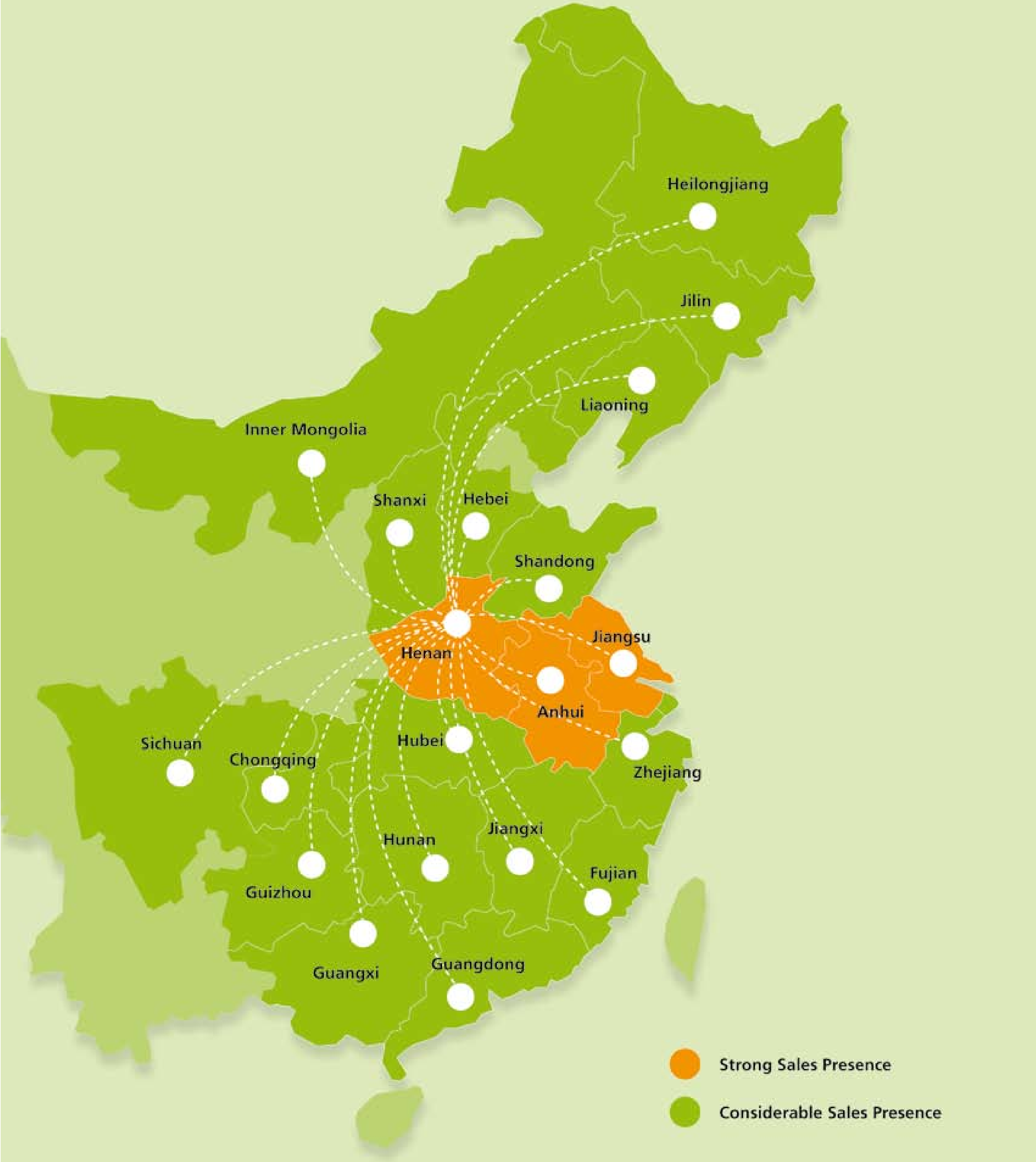
In recent years, we have placed added emphasis on environmental protection as a result of increasing environmental awareness and to comply with increasingly stringent PRC requirements.

We have implemented advanced technologies to comply with environmental requirements and also to bring about energy cost savings. We have played an exemplary role in the fertiliser industry in the PRC. In 2006 we were awarded ISO 14001:2004 Certificate of Environmental Management System and the 2nd Prize for the "Project for the Non-Discharge of Waste Water During Nitrogenous Fertiliser Production Process". In addition, we have held several of the yearly environmental protection conferences for urea producers at our plant, to showcase our strategies to protect the environment.

4 Distribution Channels

Due to the quality and reputation of our products, all our urea sales are secured by either MOU or binding contracts, and sold over 5,000 distribution points across the PRC, as shown on page 13. Our main customer is Sinofert, who has signed a 5-year agreement with us to purchase 300k tons of urea each year. Sinofert is the largest distributor in China and we capitalise on their strength to expand into new markets. Sinofert is also our key strategic investor holding 4.99% of our company.

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Jilin
Liaoning
Inner Mongolia
Shanxi
Hebei
Shandong
Henan
Jiangsu
Anhui
Zhejiang
Sichuan
Chongqing
Hubei
Hunan
Jiangxi
Fujian
Guizhou
Guangxi
Guangdong
Strong Sales Presence
Considerable Sales Presence

Growing Stronger

EXPAND CURRENT CAPACITIES

China XLX is currently building a third plant which will increase urea and methanol capacities by about 400,000 tons and 50,000 tons respectively. The entire construction will cost about RMB930 million and is targeted to complete by 3Q2009. In addition, the Group will increase its compound fertiliser production capacity by 300,000 tons at its second plant by the end of 2009. (See production capacity table below.)

GREATER COST EFFICIENCIES

China XLX management aims to increase the cost efficiency of the first plant to be as efficient as the second plant by the end of 2009. This will be achieved through technical upgrades. The second plant is currently about 10% more efficient than the first plant. In addition to the increase in cost efficiency of the first plant, the Group also expects to reduce its inbound and outbound railway transportation costs after the completion of a dedicated railway track that links the second and third plant to the railway grid.

Annual average Production capacity '000 tons

	UREA	UTILISATION RATE	COMPOUND FERTILISER	UTILISATION RATE	METHANOL	UTILISATION RATE
2004	230	100%	180	79%	35	111%
2005	250	100%	260	62%	35	94%
2006	315	94%	300	58%	35	97%
2007	680	104%	300	77%	100	93%
2008	720	103%	300	84%	100	88%
2009F	1120*		600*		150*	
2010F	1120		600		150	

*Capacities stated as at end December 2008

Third plant near completion with 400k tons urea and 50k tons methanol annual production capacity

We care We share

Our brand name "XLX", which is the acronym of the Chinese phrase "心连心", means "heart to heart" in English. It also encapsulates the values of the Group.

Donation for Sichuan Earthquake relief

Social Responsibility

Testing of soil at farmers' service centre to determine right composition of NPK in compound fertiliser

Educating farmers on fertiliser application

The Group has the largest farmers' service centre in Henan. Its service centre provides free consultation and educates farmers on the application of fertilisers. The service centre personnel visit farmers regularly to obtain soil samples from them for testing before advising the right amount of NPK compound fertiliser mix based on soil quality and type of produce.

When the Sichuan earthquake happened, China XLX was quick to organize a donation drive, which collected more than RMB 1 million from the company and its employees. This was used to aid in the rebuilding/reconstruction efforts in Sichuan.

CORPORATE CITIZENSHIP

Environmental Protection

State Environmental Bureau held annual conference at our plant in 2007

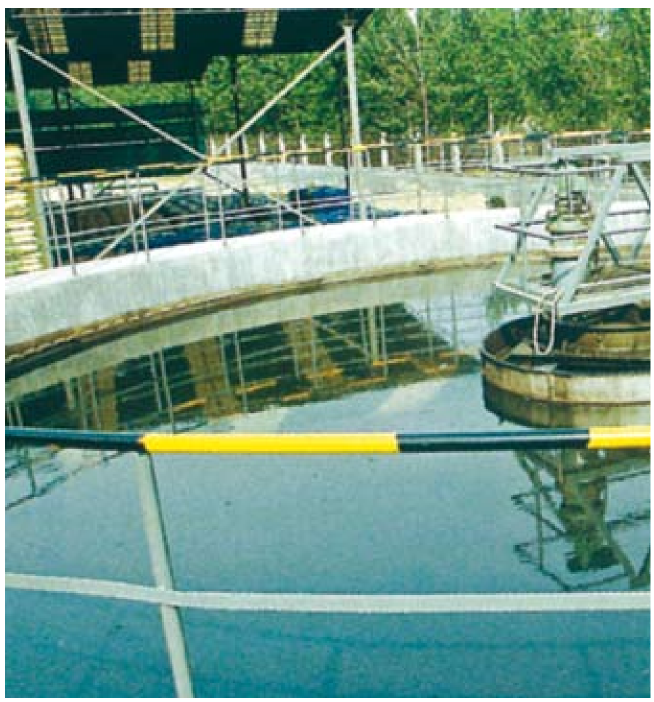
The Group obtained its ISO14001:2004 environmental management system certification in 2006 for the production of urea, methanol, development and production of compound fertiliser and related environmental management activities. While ISO14000 certifications may be common in the developed countries, it is not so common in the PRC. Out of about 200 urea producers, only a handful has obtained this certification.

The Group has consistently adhered to its environmental management system which far exceeds the State Environmental Bureau's requirements. The source of its effectiveness and efficiencies stem from its adoption of all the 18 advanced technologies recommended by the State Ammonia Fertiliser Industry Association, and hence achieving "zero emissions" and reduced energy consumption, which contributed to the Group's status as a model enterprise for its efforts on energy conservation and emissions reduction.

The Group has employed clean production technologies, makes full use of resources at the beginning and throughout the whole production process, so as to minimise, reuse or render harmless any waste matter. The Group has in place air filtration systems to ensure no harmful substances are emitted into the air. For instance, it recycles sulphur into a sludge for use in building construction. It has also effectively recycled and reused water used in the production process. In 2006, it won the second prize for the "Project for the non-discharge of waste water during nitrogenous fertiliser production process". Over the past few years, the Conference for the Environmental Protection for Fertiliser Producers had been held at its plant. The last conference was held in May 2007.

Sewage treatment 污水处理

FGD Environmental Protection Device
烟气脱硫环保装置



Pure Flowing Water
清澈流水

From left to right: FRONT ROW (Board of Directors) Mr Ong Wei Jin, Mr Ong Kian Guan, Mr Liu Xingxu, Mr Li Shengxiao, Mr Li Buwen, Ms Yan Yunhua
BACK ROW (Senior Management) Mr Ru Zhengtao, Mr Wang Nairen, Mr Zhang Qingjin, Mr Li Yushun

Board of Directors

Mr Liu Xingxu

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr Liu has been the General Manager of XLX Chem and XLX Fertiliser since August 2003 and 2006 respectively. He was appointed to our Board of Directors on 26 July 2006 and is in charge of our Group's overall strategic directions and managing our day-to-day business operations. As a recognition of his contribution to the PRC chemical fertiliser industry, Mr Liu is currently the Vice Chairman of China Nitrogen Fertiliser Industry Association. He was awarded the "Henan Province Outstanding Private Enterprise Entrepreneur" by Chinese Communist Party of Henan Provincial Committee and People's Government of Henan Province in 2005 and 2006. Mr Liu graduated from the Xinxiang Broadcasting and Television University in July 1984 with a Diploma in Arts. Subsequently, he obtained EMBA (Executive Master of Business Administration) degree from Beijing University Guanghua Management School in 2006.

Ms Yan Yunhua

CHIEF FINANCIAL OFFICER AND EXECUTIVE DIRECTOR

She has been the Deputy General Manager of XLX Chem (in charge of Finance) and XLX Fertiliser since 2003 and 2006 respectively. She is in charge of all financial matters within our Group. She was appointed to our Board of Directors on 10 November 2006. She has more than 14 years of accounting and finance experience. Ms Yan joined the accounting department of Henan Xinxiang Chemical Factory in December 1997 as Head of Accounting Team and was Deputy Head of Finance Division from March 1998 to October 2000. Ms Yan was Deputy Chief Accountant from November 2000 to July 2003 before being promoted to Chief Accountant and Deputy General Manager in August 2003 after the management buyout. In May 1997, Ms Yan obtained her Accountant Certification from the Ministry of Finance of the PRC. Ms Yan graduated from Xian Communications University in July

2003 with a Degree in Accountancy. She obtained Senior Accountant Certification from the Henan Province Accountant Series Senior Assessment Committee in December 2005. Ms Yan was accepted into Beijing University Guanghua Management School's EMBA (Executive Master of Business Administration) degree program in January 2007.

Mr Li Buwen

EXECUTIVE DIRECTOR AND DEPUTY GENERAL MANAGER (IN CHARGE OF ADMINISTRATION AND QUALITY ASSURANCE)

He was appointed to our Board of Directors on 10 November 2006. Mr Li oversees the overall administrative functions within our Group, and has more than 30 years of operations management experience. He held various posts in the Xinxiang Factory since 1984 prior to his appointment. Mr Li obtained certification from the State Economic and Trade Commission Economic Cadre Training Center, National Enterprises Human Resource Management and Development in May 2001 and certification from the Beijing Quality Association Quality Management Technical Services Centre Internal Quality System Inspector in August 2005. He has received various awards, such as the Award of Excellence by the State Chemical Industry Department for contribution to the development of the nitrogenous fertiliser industry in February 1998.

Mr Ong Kian Guan

INDEPENDENT DIRECTOR

Mr Ong Kian Guan is an Independent Director of our Company and was appointed on 11 May 2006. Mr Ong is also an Independent Director of three other companies listed in Singapore which includes JES International Holdings Limited, China Haida Ltd and China Animal Healthcare Ltd. He is currently an Audit Partner of Baker Tilly TFWLCL, and specialises in the audits of public listed companies, and initial public offering, financial due diligence and outsourced internal audit assignments. From August 2002 to November 2004, Mr Ong was Chief Financial Officer of Medtecs International Corporation Limited and was responsible for the financial aspects as well as certain administrative affairs of the Group. Prior to that, he was an Audit Senior and thereafter a Senior Audit Manager with Arthur Andersen from February 1995 to June 2002. He graduated from Nanyang Technological University with a Bachelor's degree in Accountancy in 1992.

Mr Li Shengxiao

INDEPENDENT DIRECTOR

Mr Li was appointed to our Board of Directors on 11 May 2007. Mr Li joined Shaoxing Arts and Science College after graduation in July 1987 and engaged in education and scientific research work, and is currently a Professor and the Dean of the School of Economics and Management in Shaoxing Arts and Science College since November 2004. Concurrently, he is also the Instructor of the Establishment of Zhejiang Province Small and Medium Enterprises in the Zhejiang Province Small and Medium Enterprises Bureau since November 2006. Mr Li has been an independent director of Zhejiang Jinggong Technology, (浙江精工科技), a public-listed company in Shenzhen since September 2006. Mr Li graduated from Hangzhou University (杭州大学), now known as Zhejiang University in July 1987 with a graduation certificate. University (now known as Zhejiang University) in July 1990 with a master degrees in law. He was awarded Zhejiang Province High School Outstanding Youth Teacher in 1990 and was engaged as professor in November 2004. He sits on the board of Zhejiang Jinggang Technology and Zhejiang Jinchang Real Estate Group.

Mr Ong Wei Jin

INDEPENDENT DIRECTOR

Mr Ong was appointed to our Board of Directors on 11 May 2007. He is presently a partner of Colin Ng & Partners, a firm of advocates and solicitors in Singapore. His main areas of practice are corporate finance and general corporate law. Prior to joining Colin Ng & Partners in 1999, Mr Ong was a Deputy Public Prosecutor with the Commercial Affairs Department from 1991 to 1999. He obtained a Bachelor of Law (Honours) from the National University of Singapore, a Masters in Business Administration from the University of Hull and a Masters of Law from the National University of Singapore. He sits on the board of Great Fortune Associates Limited, Hongkong Wisdom Holding Limited, Luzhou Bio-chem Technology Limited, NTI International Limited, Vantage Corporation Limited and others.

Senior Management

Mr Ru Zhengtao

Mr Ru Zhengtao has been the Deputy General Manager of XLX Fertiliser (in charge of production) since August 2006. From August 2003 to July 2006, Mr Ru was the Deputy General Manager of XLX Chem. He has over 30 years' experience in fertiliser production. He started his career with Henan Xinxiang Chemical Factory (河南新乡化肥总厂)("Xinxiang Factory") in 1974 as a Production Operator. Since then until August 2003, Mr Ru had held various positions including Section Member of Production Department, Head of Production Room of Nitrogen Fertiliser Plant of Xinxiang Factory, Deputy Head of Nitrogen Fertiliser Plant of Xinxiang Factory, Head of Nitrogen Fertiliser Plant of Xinxiang Factory, Head of Chemical Engineering Plant of Xinxiang Factory, Assistant to Head of Xinxiang Factory, Deputy Head of Xinxiang Factory and Head of Nitrogen Fertiliser Plant of Xinxiang Factory.

Mr Li Yushun

Mr Li Yushun has been the Deputy General Manager of XLX Fertiliser (in charge of R&D) since August 2006. Mr Li was the Deputy General Manager (in charge of R&D) of XLX Chem from August 2003 to July 2006. He has more than 20 years' experience in the chemical fertiliser industry. From March 1992 to August 2003, Mr Li was the Deputy Factory Head of Henan Xinxiang Chemical Factory (河南新乡化肥总厂) ("Xinxiang Factory"). Upon graduation, Mr Li joined Xinxiang Factory in August 1982 as a Technician. Since then, he held various positions, including Deputy Section Head and then Section Head of Production and Technical Department from June 1984 to May 1990 and Factory Head of the Nitrogenous Fertiliser Factory of Xinxiang Factory from June 1990 to March 1992. Mr Li held the post of Deputy Head of Xinxiang Factory from March 1992 to August 2003.

Mr Wang Nairen

Mr Wang Nairen is the Deputy General Manager of XLX Fertiliser (in charge of Sales and Purchase) since August 2006. He has more than 14 years of sales and marketing experience. From August 2003 to July 2006, Mr Wang was the Deputy General Manager of XLX Chem (in charge of sales and marketing). Mr Wang joined Henan Xinxiang Chemical Factory (河南新乡化肥总厂)("Xinxiang Factory") in March 1991 as Secretary and Office Manager. Since then, he has also held other positions, including Deputy Head of Nitrogen Fertiliser Subsidiary Plant of Xinxiang Factory from March 1992 to March 1993, Office Head of Xinxiang Factory from March 1993 to March 1995, Head of Chemical Engineering Subsidiary Plant of Xinxiang Factory from March 1995 to March 1998, Deputy Head and Assistant to Head of Xinxiang Factory from March 1998 to August 2003.

Mr Zhang Qingjin

Mr Zhang Qingjin is the Deputy General Manager of XLX Fertiliser (in charge of Human Resource) since November 2006. He has over 19 years of experience in management. Mr Zhang assumed the post of Manager of the Technical Centre of XLX Fertiliser from July 2006 to November 2006, after our Group acquired the entire equity interests in XLX Fertiliser from XLX Chem, where he has held the same post since March 2003. From February 2000 to March 2003, Mr Zhang was the Department Head of Technical Upgrade in Henan Xinxiang Chemical Factory (河南 新乡化肥总厂)("Xinxiang Factory"). Upon graduation, Mr Zhang joined Xinxiang Factory in July 1987 as a Technician. Since then, he held various positions, including Unit Head of the Equipment and Facility from March 1992 to May 1993, Unit Head of Production and Technical Unit from May 1993 to September 1994 and Section Head of Equipment and Facility Upgrade from September 1994 to February 2000.

Mr Cheah Soon Ann

Mr Cheah commenced employment with our Group in January 2007 as our Financial Controller. From November 2006 to January 2007, he was employed as a Finance Manager with Mediaring Ltd., responsible for the group's finance matters. From August 2004 to November 2006, he was an Assistant Manager (Finance/ SAP) with mDR Limited, responsible for the group's treasury functions and SAP implementation and maintenance. Mr Cheah was a Senior Officer (Audit) and then a Senior Officer (Finance) in the Agency for Science, Technology, and Research from September 2001 to August 2004, with responsibilities in internal audit and accounting functions. Prior to that, from August 1999 to September 2001, he was an Audit Assistant with Foo Kon Tan Grant Thornton. Mr Cheah graduated with an Accountancy degree from the Nanyang Technological University in 1999. He has been a CPA and CFA member since 2002. He is also an ACCA graduate, holds a MBA from the University of Adelaide and has attained SAP certification.

Corporate Information

Board of Directors
Mr Liu Xingxu, CEO/Chairman
Ms Yan Yunhua, CFO/ED
Mr Li Buwen, ED
Mr Ong Kian Guan, Lead Independent Director
Mr Ong Wei Jin, Independent Director
Mr Li Shengxiao, Independent Director

Audit Committee
Mr Ong Kian Guan (Chairman)
Mr Li Shengxiao
Mr Ong Wei Jin

Nominating Committee
Mr Li Shengxiao (Chairman)
Mr Liu Xingxu
Mr Ong Wei Jin

Remuneration Committee
Mr Ong Wei Jin (Chairman)
Mr Ong Kian Guan
Mr Li Shengxiao

Company Secretaries
Ms Foo Soon Soo
Mr Cheah Soon Ann Jeremy

Principal Place of Business
Xinxiang High-Technology Development Zone,
West Zone, Henan, PRC 453700

Registered Office
333 North Bridge Road #08-00 KH Kea Building,
Singapore 188721
Share Registrar
KCK CorpServe Pte. Ltd.
Tel: +65 6837 2133
Fax: +65 6339 3493

Bankers
ABN Amro
Credit Suisse
Oversea-Chinese Banking Corporation Limited
Standard Chartered Bank

Auditors
Ernst & Young
Certified Public Accountants
One Raffles Quay
North Tower, Level 18
Singapore 048583
Partner-in-charge: Max Loh Khum Whai
(since financial year ended 31 December 2006)
China XLX Fertiliser Ltd.

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

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

BOARD MATTERS

The Board's Conduct of its Affairs

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

The Board of Directors (the "Board") comprises 3 Executive Directors and 3 Independent Directors having the appropriate mix of core competencies and diversity of experience to direct and lead the Company. As at the date of this report, the Board comprises the following members:

Mr Liu Xingxu	(Chief Executive Officer and Executive Chairman)
Madam Yan Yunhua	(Chief Financial Officer and Executive Director)
Mr Li Buwen	(Executive Director)
Mr Ong Kian Guan	(Lead Independent Director)
Mr Li Shengxiao	(Independent Director)
Mr Ong Wei Jin	(Independent Director)

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

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

The Board has formed specialized Committees namely the Audit Committee, the Nominating Committee and the Remuneration Committee to assist in carrying out and discharging its duties and responsibilities efficiently and effectively.

These Committees function within clearly defined terms of references and operating procedures, which are reviewed on a regular basis. The effectiveness of each Committee is also constantly reviewed by the Board.

The following table discloses the number of meetings held for the Board and Board Committees and the attendance of all Directors for the financial year ended 31 December 2008: -

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATING COMMITTEE
Number of meetings held	8	5	1	2
Mr Liu Xingxu	7	N.A.	N.A.	2
Madam Yan Yunhua	8	N.A.	N.A.	N.A.
Mr Li Buwen	7	N.A.	N.A.	N.A.
Mr Ong Kian Guan	8	5	1	N.A.
Mr Li Shengxiao	8	5	1	2
Mr Ong Wei Jin	6	5	1	2

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

Board Composition and Balance

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

The Board consists of six directors, of whom three are Independent Directors.

The criterion for independence is based on the definition given in the Code. The Board considers an "independent" director as one who has no relationship with the Company, its related companies or officers that could interfere, or be reasonably perceived to interfere, with the exercise of the director's independent judgment of the conduct of the Group's affairs.

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

Key information regarding the directors is given in the 'Board of Directors' section of the annual report.

Particulars of interests of Directors who held office at the end of the financial year in shares, debentures, warrants and share options in the Company and in related corporations (other than wholly-owned subsidiaries) are set out in the Directors' Report on pages 35 to 37 of this annual report.

Chairman and Chief Executive Officer

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

The Executive Chairman and Chief Executive Officer ("CEO") is Mr Liu Xingxu. The Board is of the view that it is in the best interests of the Group to adopt a single leadership structure so as to ensure that the decision-making process of the Group would not be unnecessarily hindered.

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

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

Board Membership

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

The Nominating Committee ("NC") comprises three members, majority of whom including the Chairman are independent non-executive directors.

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

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

(a) to make recommendations to the Board on all board appointments, including re-nominations, having regard to the director's contribution and performance (for example, attendance, preparedness, participation and candour) including, if applicable, as an independent director. All directors shall be required to submit themselves for re-nomination and re-election at regular intervals and at least every three years;

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

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

(d) to decide how the Board's performance may be evaluated and propose objective performance criteria, as approved by the Board that allows comparison with its industry peers, and address how the Board has enhanced long terms shareholders' value.

The Articles of Association of the Company require one-third of the Board to retire from office at each Annual General Meeting ("AGM"). Accordingly, the Directors will submit themselves for re-nomination and re-election at regular intervals of at least once every three years. The Company has in place policies and procedures for the appointment of new directors to the Board, including a search and nomination process.

Board Performance

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

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

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

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

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

Access to Information

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

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

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

The Board has separate and independent access to the Company Secretary and to other senior management executives of the Company and of the Group at all times in carrying out their duties. The Company Secretary or her representative attends all Board meetings and meetings of the Board committees of the Company and ensure that Board procedures are followed and that applicable rules and regulations are complied with. The minutes of all Board committees' meetings are circulated to the Board.

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

REMUNERATION MATTERS

Procedures for Developing Remuneration Policies

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

The Remuneration Committee ("RC") comprises three members, all of whom are independent Directors. The members of the RC are:

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

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

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

The RC is responsible for the following:

(a) to recommend to the Board a framework of remuneration for the Directors and Executive Officers, and to determine specific remuneration packages for each Executive Director and the CEO (or executive of equivalent rank);

(b) in the case of service contracts, to consider what compensation commitments the Directors' or Executive Officers' contracts of service, if any, would entail in the event of early termination with a view to be fair and avoid rewarding poor performance; and

(c) in respect of such long-term incentive schemes (if any) including share schemes as may be implemented, to consider whether directors should be eligible for benefits under such long-term incentive schemes.

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

Level and Mix of Remuneration

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

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

The Company will submit the quantum of directors' fee of each year to the shareholders for approval at each at each Annual General Meeting.

The Executive Directors have service agreements. The service agreements cover the terms of employment, salaries and other benefits. Non-executive Directors have no service contracts.

Disclosure on Remuneration

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

The details of the remuneration of directors and top 5 key executives of the Group disclosed in bands for services rendered during the financial year ended 31 December 2008 are as follows:

	Number of directors		Top Five Key Executives	
	2008	2007	2008	2007
$500,000 and above	1	1	–	–
$250,000 to $499,999	2	2	–	–
Below $249,999	3	3	5	5
Total	6	6	5	5

The summary compensation table for the Directors of the Group for the financial year ended 31 December 2008 is set out below:

	Salary %	Bonus %	Directors' Fees %	Allowances and Other Benefits %	Total Compensation %
EXECUTIVE DIRECTORS: -					
$500,000 and above					
Mr Liu Xingxu	29	71	–	–	100
$250,000 to $499,999					
Madam Yan Yunhua	31	69	–	–	100
Mr Li Buwen	31	69	–	–	100
NON-EXECUTIVE DIRECTORS: -					
Below $249,999					
Mr Ong Kian Guan	–	–	100	–	100
Mr Li Shengxiao	–	–	100	–	100
Mr Ong Wei Jin	–	–	100	–	100

Immediate Family Member of Directors or Substantial Shareholders

No employee of the Company and its subsidiaries was an immediate family member of a Director and/or a Substantial Shareholder whose remuneration exceeded S$150,000 during the financial year ended 31 December 2008.

ACCOUNTABILITY AND AUDIT

Accountability

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

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

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

Audit Committee

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

The Audit Committee comprises the following three members, all of whom are independent directors:

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

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

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

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

iii. review and consider the appointment or re-appointment of the external auditors and matters relating to resignation or dismissal thereof;

iv. review of interested person transactions (within the definition of the Listing Manual) involving the Group in accordance with the Listing Manual;

v. review the effectiveness and adequacy of the internal accounting and financial control procedures;

vi. generally undertake such other functions and duties as may be required by the Listing Manual;

vii. review and approve future hedging policy, instruments used for hedging and foreign exchange policy and practice of the Group (if it becomes applicable to the Group in the future); and

viii. consider the appointment and termination of our internal auditors

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

Each member of the Audit Committee shall abstain from voting any resolutions in respect of matters he is interested in.

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

The Audit Committee meets with both the external and internal auditors without the presence of the Management at least once a year.

The Audit Committee reviews the independence of the external auditors annually. The Audit Committee, having reviewed the range and value of non-audit services performed by the external auditors, Ernst & Young LLP, was satisfied that the nature and extent of such services will not prejudice the independence and objectivity of the external auditors. The Audit Committee recommended that Ernst & Young LLP be nominated for re-appointment as auditors at the forthcoming AGM.

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

Internal Controls

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

The Audit Committee will ensure that a review of the effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management, is conducted annually. In this respect, the Audit Committee will review the audit plans, and the findings of the external and internal auditors and will ensure that the Company follows up on the auditors' recommendations raised, if any, during the audit process.

Internal Audit

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

The Company has in place an internal audit function comprising four staff and headed by Mr Huang Beng Fa, to check and report on the internal affairs of the Group. Mr Huang reports directly to the Audit Committee and is not related to the Directors, Executive Officers or Substantial Shareholders.

The primary functions of internal audit are to:

(a) assess if adequate systems of internal controls are in place to protect the funds and assets of the Group and to ensure control procedures are complied with;

(b) assess if operations of the business processes under review are conducted efficiently and effectively; and

(c) identify and recommend improvement to internal control procedures, where required.

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

COMMUNICATION WITH SHAREHOLDERS

Communication with Shareholders

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

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

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

Information is disseminated to shareholders on a timely basis through:

(a) SGXNET announcements and news release;

(b) Annual Report prepared and issued to all shareholders;

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

(d) Notices of and explanatory memoranda for AGM and extraordinary general meetings ("EGM");

(e) Company's website at http://www.chinaxlx.com.sg at which shareholders can access information on the Group, and Roadshows organized by banks and plant visits to our factory.

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

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

Use of IPO Proceeds

Below is the status of utilisation of net proceeds from the Company's initial public offering:

	Planned Utilization (RMB' million)	Amount Utilised (RMB' million)	Balance (RMB' million)
To use RMB210.0 million to acquire the Old and New Plants	210.0	210.0	–
To use RMB 50.0 million as part of construction cost of new power generator system for use in the New Plant	50.0	50.0	–
Balance for General Working Capital	454.4	454.4	–
Net IPO proceeds raised	714.4	714.4	–

Dealing In Securities

The Company has in place a policy prohibiting share dealings by Directors and employees of the Company for the period of two weeks prior to the announcement of the Company's quarterly results and one month prior to the announcement of the yearly results as the case may be, and ending on the date of the announcement of the relevant results. Directors and employees are expected to observe the insider trading laws at all times even when dealing in securities within permitted trading period.

Interested Person Transactions Policy

The Company adopted an internal policy in respect of any transactions with interested person and has established procedures for review and approval of the interested person transactions entered into by the Group. The Audit Committee has reviewed the rationale and terms of the Group's interested person transactions and is of the view that the interested person transactions are on normal commercial terms and are not prejudicial to the interests of the shareholders.

The interested person transactions transacted for the financial year ended 31 December 2008 by the Group are as follows:

Name of Interested Person	Aggregate value of all interested person transactions conducted (excluding transactions less than $100,000 and transactions conducted under shareholders' mandate pursuant to Rule 920) RMB'000	Aggregate value of all interested person transactions conducted under shareholders' mandate pursuant to Rule 920 (excluding transactions less than $100,000) RMB'000
Henan Xinlianxin Chemicals Co., Ltd. Group	26,531	–

Material Contracts

There was no material contracts entered into by the Company or any of its subsidiary companies involving the interest of the Chief Executive Officer, any Director, or controlling shareholder.

The directors are pleased to present their report to the members together with the audited consolidated financial statements of China XLX Fertiliser Ltd. (the Company) and its subsidiary (collectively, the Group) and the balance sheet and statement of changes in equity of the Company for the financial year ended 31 December 2008.

Directors

The Directors of the Company in office at the date of this report are:

Liu Xingxu
Yan Yunhua
Li Buwen
Ong Kian Guan
Ong Wei Jin
Li Shengxiao

Arrangements to enable directors to acquire shares and debentures

Neither at the end of nor at any time during the financial year was the Company a party to any arrangement whose objects are, or one of whose object is, to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' interests in shares and debentures

The following directors, who held office at the end of the financial year, had, according to the register of directors' shareholdings required to be kept under section 164 of the Singapore Companies Act, Cap. 50, an interest in shares of the Company and related corporations (other than wholly-owned subsidiaries) as stated below:

	Direct interest	
Name of Director	**At the beginning of financial year**	**At the end of financial year**
Ordinary shares of the Company		
Yan Yunhua	300,000	300,000
Ong Kian Guan	100,000	100,000

	Deemed interest	
Name of Director	**At the beginning of financial year**	**At the end of financial year**
Ordinary shares of the Company		
Liu Xingxu	343,376,000	343,376,000
Yan Yunhua	280,944,000	280,944,000

By virtue of Section 7 of the Singapore Companies Act, Cap. 50, Liu Xingxu and Yan Yunhua are deemed to have interests in the 343,376,000 shares and 280,944,000 shares of the Company registered in the name of Pioneer Top Holdings Limited and Go Power Investments Limited respectively.

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

Except as disclosed in this report, no director who held offices at the end of the financial year had interests in shares, share options, warrants or debentures of the Company, or of related corporations, either at the beginning or at the end of the financial year.

Directors' contractual benefits

Except as disclosed in the financial statements, since the end of the previous financial year, no director of the Company has received or become entitled to receive a benefit by reason of a contract made by the Company or a related corporation with the director, or with a firm of which the director is a member, or with a company in which the director has a substantial financial interest.

Options

No options were issued by the Company or its subsidiary during the financial year. As at 31 December 2008, there were no options on the unissued shares of the Company or its subsidiary which are outstanding.

Audit Committee

The Audit Committee ("AC") carried out its functions in accordance with Section 201B(5) of the Singapore Companies Act, Cap. 50, including the following:

- Reviews the audit plans of the internal and external auditors of the Company, and reviews the internal auditors' evaluation of the adequacy of the Company's system of internal accounting controls and the assistance given by the Company's management to the external and internal auditors;
- Reviews the quarterly and annual financial statements and the auditors' report on the annual financial statements of the Company before their submission to the board of directors;
- Reviews effectiveness of the Company's material internal controls, including financial, operational and compliance controls and risk management via reviews carried out by the internal auditors;
- Meets with the external auditors, other committees, and management in separate executive sessions to discuss any matters that these groups believe should be discussed privately with the AC;
- Reviews legal and regulatory matters that may have a material impact on the financial statements, related compliance policies and programmes and any reports received from regulators;
- Reviews the cost effectiveness and the independence and objectivity of the external auditors;
- Reviews the nature and extent of non-audit services provided by the external auditors;

- Recommends to the board of directors the external auditors to be nominated, approves the compensation of the external auditors, and reviews the scope and results of the audit;
- Reports actions and minutes of the AC to the board of directors with such recommendations as the AC considers appropriate; and
- Reviews interested person transactions in accordance with the requirements of the Singapore Exchange Securities Trading Limited (SGX-ST)'s Listing Manual.

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

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

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

Auditors

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

On behalf of the board of directors:

Liu Xingxu
Director

Yan Yunhua
Director

31 March 2009

STATEMENT BY DIRECTORS

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

(i) the accompanying balance sheets, consolidated income statement, statements of changes in equity and consolidated cash flow statement together with notes thereto are drawn up so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008 and the results of the business, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date, and

(ii) at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they fall due.

On behalf of the board of directors:

Liu Xingxu
Director

Yan Yunhua
Director

31 March 2009

We have audited the accompanying consolidated financial statements of China XLX Fertiliser Ltd. (the Company) and its subsidiary (collectively, the Group) set out on pages 17 to 63, which comprise the balance sheets of the Group and the Company as at 31 December 2008, the statements of changes in equity of the Group and the Company and the income statement and cash flow statement of the Group for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the provisions of the Singapore Companies Act, Cap. 50 (the Act) and Singapore Financial Reporting Standards. This responsibility includes devising and maintaining a system of internal accounting controls sufficient to provide a reasonable assurance that assets are safeguarded against loss from unauthorised use or disposition; and transactions are properly authorised and that they are recorded as necessary to permit the preparation of true and fair profit and loss accounts and balance sheets and to maintain accountability of assets; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

INDEPENDENT AUDITORS' REPORT

To the Members of China XLX Fertiliser Ltd.

Opinion

In our opinion,

(i) the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are properly drawn up in accordance with the provisions of the Act and Singapore Financial Reporting Standards so as to give a true and fair view of the state of affairs of the Group and of the Company as at 31 December 2008, and the results, changes in equity and cash flows of the Group and the changes in equity of the Company for the year ended on that date; and

(ii) the accounting and other records required by the Act to be kept by the Company have been properly kept in accordance with the provisions of the Act.

Ernst & Young LLP
Public Accountants and
Certified Public Accountants
Singapore

31 March 2009

CONSOLIDATED INCOME STATEMENT

for the financial year ended 31 December 2008

(Amounts expressed in Renminbi)

	Note	2008 Rmb'000	2007 Rmb'000
Revenue	4	2,084,943	1,541,422
Cost of sales		(1,597,073)	(1,125,001)
Gross profit		487,870	416,421
Other items of income			
Other income	5	16,032	23,764
Financial income	9	4,227	7,997
Other items of expense			
Selling and distribution expenses		(20,722)	(20,166)
General and administrative expenses		(97,885)	(76,635)
Other expenses	5	(12,963)	–
Financial expenses	9	(26,791)	(18,062)
Profit before tax	6	349,768	333,319
Income tax expense	10	(3,369)	(16,142)
Net profit attributable to shareholders		346,399	317,177
Earnings per share (Rmb cents per share)			
Basic and diluted	11	34.64	50.91

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

BALANCE SHEETS

as at 31 December 2008

(Amounts expressed in Renminbi)

	Note	Group 2008 Rmb'000	Group 2007 Rmb'000	Company 2008 Rmb'000	Company 2007 Rmb'000
ASSETS					
Non-current assets					
Property, plant and equipment	12	1,616,011	974,266	–	–
Land use rights	13	74,197	48,474	–	–
Investment in subsidiary	14	–	–	800,000	400,000
		1,690,208	1,022,740	800,000	400,000
Current assets					
Inventories	15	234,965	178,525	–	–
Prepayments	16	304,469	107,269	–	–
Trade receivables	17	7,667	1,793	–	–
Bills receivable from banks	17	18,580	5,528	–	–
Other receivables	17	6,094	4,303	1,509	551
Due from related parties	17	–	1,998	307,536	–
Derivatives	18	19,807	–	19,807	–
Fixed deposits		10,685	453,529	10,685	435,078
Cash and bank balances		189,429	56,789	12,352	5,254
		791,696	809,734	351,889	440,883
TOTAL ASSETS		2,481,904	1,832,474	1,151,889	840,883
EQUITY AND LIABILITIES					
Current liabilities					
Deferred grant	19	9,740	8,240	–	–
Income tax payable		220	930	220	930
Interest-bearing loans and borrowings	20	145,000	287,000	–	–
Trade payables	21	47,760	27,685	–	–
Bills payable to bank	21	–	5,000	–	–
Other payables	21	154,302	179,501	–	–
Due to related parties	21	1,676	1,682	–	–
Accruals and other liabilities	22	130,709	61,195	10,563	4,078
		489,407	571,233	10,783	5,008
NET CURRENT ASSETS		302,289	238,501	341,106	435,875
Non-current liabilities					
Interest-bearing loans and borrowings	20	432,974	90,348	307,557	–
Loan from related party	20	90,000	–	–	–
Deferred tax liabilities	23	18,617	14,725	–	–
		541,591	105,073	307,557	–
TOTAL LIABILITIES		1,030,998	676,306	318,340	5,008
NET ASSETS		1,450,906	1,156,168	833,549	835,875
Equity attributable to equity holders of the Company					
Share capital	24	772,328	772,328	772,328	772,328
Statutory reserve fund	25	77,770	40,514	–	–
Hedging reserve	18	19,807	–	19,807	–
Accumulated profits		581,001	343,326	41,414	63,547
TOTAL EQUITY		1,450,906	1,156,168	833,549	835,875
TOTAL EQUITY AND LIABILITIES		2,481,904	1,832,474	1,151,889	840,883

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2008

(Amounts expressed in Renminbi)

Group	Share capital (Note 24) Rmb'000	Statutory reserve fund (Note 25) Rmb'000	Hedging reserve (Note 18) Rmb'000	Accumulated profits Rmb'000	Total equity Rmb'000
Opening Balance at 1 January 2007	1	6,745	–	59,918	66,664
Profit, representing total recognised income for the year	–	–	–	317,177	317,177
Issuance of new ordinary shares pursuant to the conversion of the Pre-IPO investors Convertible Loan	57,893	–	–	–	57,893
Issuance of new ordinary shares pursuant to the IPO	770,000	–	–	–	770,000
Share issue expenses	(55,566)	–	–	–	(55,566)
Transfer to statutory reserve fund	–	33,769	–	(33,769)	–
Closing Balance at 31 December 2007	772,328	40,514	–	343,326	1,156,168
Opening Balance as at 1 January 2008	772,328	40,514	–	343,326	1,156,168
Profit, representing and total recognised income for the year	–	–	–	346,399	346,399
Dividends on ordinary shares (Note 26)	–	–	–	(71,468)	(71,468)
Transfer to statutory reserve fund	–	37,256	–	(37,256)	–
Hedging reserve	–	–	19,807	–	19,807
Closing Balance at 31 December 2008	772,328	77,770	19,807	581,001	1,450,906

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

STATEMENTS OF CHANGES IN EQUITY

for the financial year ended 31 December 2008

(Amounts expressed in Renminbi)

Company	Share capital (Note 24) Rmb'000	Hedging reserve (Note 18) Rmb'000	Accumulated profits Rmb'000	Total equity Rmb'000
Opening balance at 1 January 2007	1	–	764	765
Profit, representing total recognised income for the year	–	–	62,783	62,783
Issuance of new ordinary shares pursuant to the conversion of the Pre-IPO investors Convertible Loan	57,893	–	–	57,893
Issuance of new ordinary shares pursuant to the IPO	770,000	–	–	770,000
Share issue expenses	(55,566)	–	–	(55,566)
Closing balance at 31 December 2007	772,328	–	63,547	835,875
Opening balance at 1 January 2008	772,328	–	63,547	835,875
Profit, representing total recognised income for the year	–	–	49,335	49,335
Dividends on ordinary shares (Note 26)	–	–	(71,468)	(71,468)
Hedging reserve	–	19,807	–	19,807
Closing balance at 31 December 2008	772,328	19,807	41,414	833,549

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the financial year ended 31 December 2008

(Amounts expressed in Renminbi)

	2008 Rmb'000	2007 Rmb'000
Cash flows from operating activities		
Profit before tax	349,768	333,319
Adjustments for:		
Amortisation of land use rights	1,388	217
Depreciation of property, plant and equipment	78,465	43,984
Net fair value gain on derivatives	(1,763)	–
Loss/(gain) on disposal of property, plant and equipment	1,648	(23)
(Write back)/allowance for doubtful trade receivables	(83)	360
Write-off of doubtful trade receivables	75	1,030
Write-off of tax recoverable	–	732
Write-off of property, plant and equipment	694	–
Write-off of low value consumables	–	43
Write-off of technical know-how	–	1,350
Interest income	(4,227)	(7,997)
Interest expense	26,791	18,062
Inventories written down	6,000	–
Total adjustments	108,988	57,758
Operating cash flows before changes in working capital	458,756	391,077
Changes in working capital		
Increase in inventories	(62,440)	(60,519)
(Increase)/decrease in trade and bills receivables	(18,918)	15,279
Decrease/(increase) in prepayments	17,386	(32,248)
(Increase)/decrease in other receivables	(1,791)	1,709
Decrease in due from related parties	1,998	9,904
Increase/(decrease) in trade and bills payables	15,075	(14,278)
Decrease in other payables	(25,199)	(27,712)
Increase in accruals and other liabilities	5,953	43,458
(Decrease)/increase in due to related parties	(6)	1,682
Total changes in working capital	(67,942)	(62,725)
Cash flows generated from operations	390,814	328,352
Government grant received	1,500	8,240
Interest received	4,227	7,446
Interest paid	(26,791)	(18,062)
Tax paid	(187)	(18,475)
Net cash flows from operating activities	369,563	307,501

CONSOLIDATED CASH FLOW STATEMENT

for the financial year ended 31 December 2008

(Amounts expressed in Renminbi)

	2008 Rmb'000	2007 Rmb'000
Cash flows from investing activities		
Proceeds from disposal of property, plant and equipment	754	519
Purchase of property, plant and equipment (Note B)	(879,998)	(610,222)
Purchase of land use rights	(21,444)	–
Net cash flows used in investing activities	(900,688)	(609,703)
Cash flows from financing activities		
Proceeds from the issue of new ordinary shares, net of share issue expenses	–	772,327
Dividends paid on ordinary shares	(71,468)	–
Proceeds from loans and borrowings	642,626	30,255
Proceeds from termination of derivatives	1,763	–
Repayments of loans and borrowings	(352,000)	(160,264)
Decrease in fixed deposits pledged	3,508	9,123
Net cash flows from financing activities	224,429	651,441
Net (decrease)/increase in cash and cash equivalents	(306,696)	349,239
Cash and cash equivalents at 1 January	506,810	157,571
Cash and cash equivalents at 31 December (Note A)	200,114	506,810

Notes to the cash flow statement

A. Cash and cash equivalents

Cash and cash equivalents consist of cash and bank balances and unpledged bank deposits. Cash and cash equivalents included in the statement of cash flows comprise the following:

	2008 Rmb'000	2007 Rmb'000
Fixed deposits	10,685	453,529
Cash and bank balances	189,429	56,789
Cash and bank deposits	200,114	510,318
Less: Fixed deposits pledged	–	(3,508)
Cash and cash equivalents	200,114	506,810

Cash and bank balances denominated in Renminbi have an average effective interest rate of 0.66% per annum for the financial year ended 31 December 2008 (2007: 0.78%). Cash and bank balances denominated in Singapore Dollars have an average effective interest rate of 0.07% per annum for the financial year ended 31 December 2008 (2007: 1.81%). No interest income is earned on bank balances denominated in United States Dollars.

(Amounts expressed in Renminbi)

Notes to the cash flow statement (cont'd)

A. Cash and cash equivalents (cont'd)

The fixed deposits denominated in Singapore Dollars have an effective interest rate of 1.94% (2007: 1.92%) per annum and an average maturity of 18 days (2007: 33 days). There were no fixed deposits denominated in United States Dollars in 2008 (2007: 5.01% and 10 days).

Cash and bank deposits are denominated in the following currencies:

	2008 Rmb'000	2007 Rmb'000
Renminbi	36,006	53,664
Singapore Dollars	22,077	456,635
United States Dollars	142,031	19
	200,114	510,318

B. Property, plant and equipment

		2008 Rmb'000	2007 Rmb'000
Current year additions to property, plant and equipment		723,306	564,930
Less:	Prepayments made in prior year	(57,629)	(15,819)
	Payable to creditors	(98,692)	(4,510)
		566,985	544,601
Add:	Prepayments made in current year	277,882	57,629
	Payments for prior year purchase	35,131	7,992
Net cash outflow for purchase of property, plant and equipment		879,998	610,222

The accompanying accounting policies and explanatory notes form an integral part of the financial statements.

1. Corporation information

1.1 *The Company*

China XLX Fertiliser Ltd. ("the Company"), (previously known as "Xin Lian Xin Holdings Pte. Ltd. "), is a limited liability company incorporated in Singapore and is listed on the Singapore Exchange Securities Trading Limited (SGX-ST).

The registered office of the Company is at 333 North Bridge Road, #08-00 KH Kea Building, Singapore 188721. The principal place of business of the Group is located at Xinxiang High-Technology Development Zone, West Zone, Henan Province, People's Republic of China (PRC).

The principal activity of the Company is that of investment holding. The principal activities of the Company's subsidiary are described in Note 14.

2. Summary of significant accounting policies

2.1 *Basis of preparation*

The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company have been prepared on a historical cost basis in accordance with Singapore Financial Reporting Standards (FRS).

The financial statements have been prepared on the historical cost basis except as disclosed in the accounting policies below.

The Group's principal operations are conducted in the PRC and thus the financial statements are prepared in Renminbi (Rmb), being the functional currency of the Group. All values are rounded to the nearest thousand (Rmb'000) except when otherwise indicated.

2.2 *Changes in accounting policies*

The accounting policies have been consistently applied by the Group during the financial year ended 31 December 2008. There are no new or revised FRS relevant to the Group which have not been adopted by the Group.

(a) Adoption of new or revised FRS and Interpretations to FRS (INT FRS)

New standards effective for annual periods beginning on or after the dates as stated but not applicable to the Group's activities are as follows:

Reference	Description	Effective for annual periods beginning on or after
INT FRS 111	Group and Treasury Share Transactions	1 March 2007
INT FRS 112	Service Concession Arrangements	1 January 2008
INT FRS 114	The Limits on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	1 January 2008

2. Summary of significant accounting policies (cont'd)

2.2 *Changes in accounting policies (cont'd)*

(b) *FRS and Interpretations to FRS (INT FRS) not yet effective*

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

Reference	Description	Effective for annual periods beginning on or after
FRS 1	Amendments to FRS 1, Presentation of Financial Statements – Revised Presentation	1 January 2009
FRS 1	Amendments to FRS 1, Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
FRS 23	Amendments to FRS 23, Borrowing Costs	1 January 2009
FRS 27	Amendments to FRS 101, First-time Adoption of Financial Reporting Standards and FRS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
FRS 32	Amendments to FRS 32, Financial Instruments – Presentation	1 January 2009
FRS 39	Amendments to FRS 39, Financial Instruments – Recognition and Measurement	1 July 2009
FRS 101	Amendments to FRS 101, First-time Adoption of Financial Reporting Standards and FRS 27 Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 January 2009
FRS 102	Amendments to FRS 102, Share-based Payments (Vesting Conditions and Cancellations)	1 January 2009
FRS 108	Operating Segments	1 January 2009
INT FRS 113	Customer Loyalty Programmes	1 July 2008
INT FRS 116	Hedges of a Net Investment in a Foreign Operation	1 October 2008
INT FRS 117	Distributions of Non-cash Assets to Owners	1 July 2009

The adoption of the above pronouncements will have no material impact to the financial statements in the period of initial application, except for FRS 108 as indicated below.

FRS 108 requires entities to disclose segment information based on the information reviewed by the entity's chief operating decision maker. The impact of this standard on the other segment disclosures is still to be determined. As this is a disclosure standard, it will have no impact on the financial position or financial performance of the Group when implemented in 2009.

2. Summary of significant accounting policies (cont'd)

2.3 *Subsidiaries and basis of consolidation*

(a) *Subsidiaries*

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

(b) *Basis of consolidation*

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

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

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

2.4 *Functional and foreign currency*

(a) *Functional currency*

The Group's principal operations are conducted in the PRC. The management has determined the currency of the primary economic environment in which the Group operates, i.e. functional currency, to be Renminbi (Rmb). Sales prices and major costs of providing goods and services including major operating expenses are primarily influenced by fluctuations in Rmb.

(b) *Foreign currency transactions*

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

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

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

2. Summary of significant accounting policies (cont'd)

2.5 *Property, plant and equipment*

All items of property, plant and equipment are initially recorded at cost. The cost of an item of property, plant and equipment is recognised as an asset if, and only if, it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Subsequent to recognition, property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation of an asset begins when it is available for use and is computed on a straight-line basis to write off the cost of property, plant and equipment less estimated residual value over the estimated useful life of the assets as follows:

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

Construction-in-progress relates to assets under construction (buildings and plant and machinery) and are not depreciated as these assets are not available for use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

The residual values, useful life and depreciation method are reviewed at each financial year-end to ensure that the amount, method and period of depreciation are consistent with previous estimates and the expected pattern of consumption of the future economic benefits embodied in the items of property, plant and equipment.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

2.6 *Land use rights*

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

The amortisation period and method are reviewed at each financial year end. The amortisation expense is recognised in the income statement through the 'General and administrative expenses' line item.

2. Summary of significant accounting policies (cont'd)

2.7 *Impairment of non-financial assets*

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

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

Impairment losses of continuing operations are recognised in the income statement through the 'General and administrative expenses' line item.

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

2.8 *Related party*

An entity or individual is considered a related party of the Group for the purposes of the consolidated financial statements if: i) it possesses the ability (directly or indirectly) to control or exercise significant influence over the operating and financial decisions of the Group or vice versa; or ii) it is subjected to common control or common significant influence.

2.9 *Financial assets*

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

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

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

2. Summary of significant accounting policies (cont'd)

2.9 *Financial assets (cont'd)*

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

(a) *Financial assets at fair value through profit or loss*

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

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

(b) *Loans and receivables*

Financial assets with fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, and through the amortisation process.

(c) *Held-to-maturity investments*

Financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold the investment to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method. Gains and losses are recognised in the income statement when the held-to-maturity investments are derecognised or impaired, and through the amortisation process.

(d) *Available-for-sale financial assets*

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

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

2. Summary of significant accounting policies (cont'd)

2.10 *Impairment of financial assets*

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired.

(a) *Assets carried at amortised cost*

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

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

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

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

(b) *Assets carried at cost*

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

(c) Available-for-sale financial assets

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

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

2. Summary of significant accounting policies (cont'd)

2.11 *Cash and cash equivalents*

Cash and cash equivalents comprise unpledged bank deposits and cash and bank balances. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash and short-term deposits carried in the balance sheets are classified and accounted for as loans and receivables. The accounting policy for this category of financial assets is stated in Note 2.10.

2.12 *Inventories*

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

Raw materials – purchase cost on a weighted average basis

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

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

2.13 *Provisions*

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

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

2.14 *Government grant*

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

2. Summary of significant accounting policies (cont'd)

2.15 *Trade and other receivables*

Trade and other receivables are classified and accounted for as loans and receivables under FRS 39. The accounting policy for this category of financial assets is stated in Note 2.10.

An allowance is made for uncollectible amounts when there is objective evidence that the Group will not be able to collect the debt. Bad debts are written off when identified. Further details on the accounting policy for impairment of financial assets are stated in Note 2.10.

2.16 *Financial liabilities*

Financial liabilities are recognised on the balance sheet, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

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

Subsequent to initial recognition, all financial liabilities are measured at amortised cost using the effective interest method, except for derivatives, which are measured at fair value.

A financial liability is derecognised when the obligation under the liability is extinguished. For financial liabilities other than derivatives, gains and losses are recognised in the income statement when the liabilities are derecognised or impaired, and through the amortisation process. Any gains or losses arising from changes in fair value of derivatives are recognised in the income statement. Net gains or losses on derivatives include exchange differences.

2.17 *Borrowing costs*

Borrowing costs are generally recognised in the income statement as incurred.

2.18 *Employee benefits*

Defined contribution plans - pension benefits

The Group is required to provide certain staff pension benefits to their employees under existing PRC regulations. Pension contributions are provided at rates stipulated by PRC regulations and are contributed to a pension fund managed by government agencies, which are responsible for administering these amounts for the subsidiary's employees.

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

Pension contributions are recognised as an expense in the period in which the related services are performed.

2. Summary of significant accounting policies (cont'd)

2.19 *Revenue*

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

(a) *Sale of goods*

Revenue from sale of goods is recognised upon the transfer of significant risk and rewards of ownership of the goods to the customers, which generally coincides with delivery and acceptance of the goods sold. Revenue is not recognised to the extent where there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods.

(b) *Rendering of services*

Revenue from the rendering of consultation and marketing services to the Urea distributors and end consumers is recognised on a straight line basis over the contracted period of service.

(c) *Interest income*

Interest income is recognised using the effective interest method.

2.20 Income taxes

(a) *Current tax*

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

Current taxes are recognised in the income statement except that tax relating to items recognised directly in equity is recognised directly in equity.

(b) *Deferred tax*

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

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

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

- In respect of temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future; and

2. Summary of significant accounting policies (cont'd)

2.20 Income taxes (cont'd)

(b) *Deferred tax (cont'd)*

- In respect of deductible temporary differences and carry-forward of unused tax credits and unused tax losses, if it is not probable that taxable profit will be available against which the deductible temporary differences and carry-forward of unused tax credits and unused tax losses can be utilised.

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

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

Deferred taxes are recognised in the income statement except that deferred tax relating to items recognised directly in equity is recognised directly in equity and deferred tax arising from a business combination is adjusted against goodwill on acquisition.

(c) *Value-added-tax ("VAT")*

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

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

Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

Receivables and payables that are stated with the amount of VAT included.

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

2.21 *Segment reporting*

A business segment is a distinguishable component of the Group that is engaged in providing products or services that are subject to risks and return that are different from those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risk and returns that are different from those of components operating in other economic environment.

2. Summary of significant accounting policies (cont'd)

2.22 *Share capital and share issue expenses*

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

2.23 *Contingencies*

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

Contingent liabilities and assets are not recognised on the balance sheet of the Group.

2.24 *Derivative financial instruments and hedging activities*

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

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

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate derivative contracts is determined by reference to market values for similar instruments.

Hedge accounting

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

- Fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognised firm commitment; or

- Hedges of a net investment in a foreign operation.

- Economic hedges that economically hedge monetary assets and liabilities denominated in foreign currencies.

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

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

2. Summary of significant accounting policies (cont'd)

2.24 *Derivative financial instruments and hedging activities (cont'd)*

Cash flow hedges

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

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

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

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

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

Hedging reserve

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

3. Significant accounting estimates and judgements

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

3.1 *Judgements made in applying accounting policies*

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

Income taxes

The Group has exposure to income taxes in the PRC. Significant judgement is involved in determining the provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The carrying amount of the Group's tax payable at 31 December 2008 was Rmb 220,221 (2007: Rmb 930,000).

3. Significant accounting estimates and judgements (cont'd)

3.2 *Key sources of estimation uncertainty*

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

Useful lives of plant and machinery

The cost of plant and machinery for the production of fertilisers is depreciated on a straight-line basis over the estimated useful life of the assets. Management estimates the useful life of the production lines to be 8-15 years. This is a common life expectancy applied in the manufacturing industry. The carrying amount of the Group's plant and machinery as at 31 December 2008 was Rmb 669,736,372 (2007: Rmb 704,237,000). Changes in the expected level of usage and technological developments could impact the economic useful lives of the plant and machinery, therefore depreciation charges could be revised in line with revisions to expected economic useful lives. A 5% difference in the expected useful lives of the plant and machinery would result in approximately 0.9% (2007: 0.6%) variance in the Group's profit for the year.

4. Revenue

	Group	
	2008	**2007**
	Rmb'000	**Rmb'000**
Sale of goods	2,059,102	1,541,422
Service income	25,841	–
	2,084,943	1,541,422

Revenue represents sales of goods and service income earned net of discounts and value-added-tax (VAT).

5. Other income and expense

(a) *Other income*

	Group 2008 Rmb'000	Group 2007 Rmb'000
Sale of by-products	5,564	3,717
Management fees from related parties	941	962
Service fee income from related parties	–	1
Other service fee income	–	11
Net fair value gain on derivatives	1,763	–
Realised exchange gain	–	7,487
Unrealised exchange gain	–	11,116
Gain on disposal of property, plant and equipment	–	23
Write-back of provision for PRC statutory welfare fund*	6,595	–
Others	1,169	447
	16,032	23,764

* Prior to FY2007, PRC statutory welfare fund is accrued based on 14% of the total monthly salary payable. Upon the incorporation of the Company in Singapore on 17 July 2006, its PRC subsidiary is considered as a Foreign Owned Enterprise and is no longer required to contribute to PRC statutory welfare fund. Hence the subsidiary has reversed all provisions made in prior years, amounting to Rmb 6,595,080, in the financial year ended 31 December 2008.

(b) *Other expense*

	Group 2008 Rmb'000	Group 2007 Rmb'000
Donations	1,445	–
Realised exchange loss	1,667	–
Unrealised exchange loss	1,436	–
Inventory written down	6,000	–
Loss on disposal of property, plant and equipment	1,648	–
Write-off of property, plant and equipment	694	–
Others	73	–
	12,963	–

6. Profit before tax

This is determined after charging (crediting) the following and items in Notes 5 and 7:

	Group	
	2008 Rmb'000	2007 Rmb'000
Amortisation of land use rights	1,388	217
Write-off of technical know-how	–	1,350
Depreciation of property, plant and equipment	78,465	43,984
(Write back)/allowance for doubtful trade receivables	(83)	360
Write-off of doubtful trade receivables	75	1,030
Write-off of technical know-how	–	1,350
Write-off of tax recoverable	–	732
Professional fees	6,280	5,030
Research expenses	41	993
Transportation expenses	7,155	7,968
Operating lease expenses		
- related parties	49	34,360
- others	1,845	737
Director fees	700	700
Personnel expenses* (Note 7)	83,477	76,402

* Included are directors' remuneration and remuneration of key management personnel as disclosed in Note 8(b).

7. Personnel expenses

	Group	
	2008 Rmb'000	2007 Rmb'000
Salaries and bonus	74,827	70,593
Contribution to defined contribution plans	6,101	4,119
Welfare expenses	2,549	1,690
	83,477	76,402

	2008	2007
Number of employees	3,099	2,310

8. Related party transactions

(a) In addition to those related party information disclosed elsewhere in the financial statements, the Group had the following transactions with related parties on terms agreed between the parties:

	Group	
	2008	2007
	Rmb'000	Rmb'000
Sale of finished goods	–	319
Sale of raw materials and consumables	–	137
Sale of water, electricity and steam	2,726	2,737
Service fee income	82	72
Purchase of finished goods	–	728
Purchase of raw materials and consumables	15,065	2,681
Service fee expenses	2,413	766
Operating lease expenses	492	34,360
Interest expense	5,835	–
Payment on behalf for purchase of raw materials	–	1,998
Purchase of property, plant and equipment	–	209,909

These transactions were between the Group and Henan Xinlianxin Chemicals., Ltd and its subsidiaries and associates which certain directors have significant influence over but which did not form part of the Relevant Business acquired by the Group. The executive directors and executive officers have in total a 24% equity interest in Henan Xinlianxin Chemicals., Ltd.

(b) Compensation of directors and key management personnel

Salaries and bonus	9,988	9,977
Contribution to defined contribution plans	70	89
	10,058	10,066
Comprise amounts paid to:		
- Directors of the Company	8,447	8,145
- Other key management personnel	1,611	1,921
	10,058	10,066

9. Financial income and expense

(a) Financial income

	Group 2008 Rmb'000	Group 2007 Rmb'000
Interest income		
- bank deposits	2,872	7,996
- others	1,355	1
	4,227	7,997

(b) Financial expense

	Group 2008 Rmb'000	Group 2007 Rmb'000
Interest expense		
- bank loans	26,387	14,766
- convertible loan	–	3,041
- government loans	404	255
	26,791	18,062

10. Income tax expense

Major components of income tax expense

The major components of income tax expense for the financial years ended 31 December 2008 and 2007 are:

	Group 2008 Rmb'000	Group 2007 Rmb'000
Income statement:		
Current income tax		
- Current income taxation	–	930
- (Over)/under provision in respect of prior years	(523)	487
	(523)	1,417
Deferred income tax		
- Current deferred income tax	3,892	14,725
Income tax expense recognised in the income statement	3,369	16,142

10. Income tax expense (cont'd)

Relationship between tax expense and accounting profit

The reconciliation between tax expense and the product of profit before tax multiplied by the applicable corporate tax rate for the financial years ended 31 December 2007 and 2008 is as follows:

	Group	
	2008 Rmb'000	2007 Rmb'000
Profit before tax	349,768	333,319
Tax at the domestic rates applicable to profits in the countries where the Group operates	93,083	99,526
Tax effect of expenses not deductible in determining taxable profit, net	3,892	14,951
Effect of tax exemption	(93,083)	(98,822)
(Over)/under provision in respect of prior years	(523)	487
Income tax expense recognised in the income statement	3,369	16,142

The Company is incorporated in Singapore and accordingly, is subject to an income tax rate of 18% for the year of assessment 2009 (YA2008: 18%). There was no taxable income for the financial year ended 31 December 2008.

Based on the "Income Tax Law of the PRC for Enterprises with Foreign Investments and Foreign Enterprises", the subsidiary is entitled to full exemption from income tax for the first two years and a 50% reduction in income tax for the next three years. The subsidiary has elected the financial year ending 31 December 2007 as the first profitable year for the purposes of determining the tax holiday period.

11. Earnings per share

Earnings per share is calculated by dividing the Group's net profit attributable to shareholders for the financial year by the weighted average number of 1,000,000,000 (2007: 623,014,000) ordinary shares outstanding.

12. Property, plant and equipment

31 December 2007	Buildings	Other fixtures and constructions	Plant and machinery	Office equipment and furniture	Motor vehicles	Construction-in-progress	Total
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Group							
Cost							
At 1 January 2007	–	25,104	290,429	21,483	1,232	9,780	348,028
Additions	84,010	65,147	547,404	6,068	4,940	94,397	801,966
Transfers	–	4,746	26,427	1,401	–	(32,574)	–
Disposals	–	–	(508)	–	(172)	–	(680)
At 31 December 2007	84,010	94,997	863,752	28,952	6,000	71,603	1,149,314
Accumulated depreciation							
At 1 January 2007	–	4,315	122,957	3,597	379	–	131,248
Depreciation charge for the year	553	3,188	36,578	3,180	485	–	43,984
Disposals	–	–	(20)	–	(164)	–	(184)
At 31 December 2007	553	7,503	159,515	6,777	700	–	175,048
Net carrying amount							
At 31 December 2007	83,457	87,494	704,237	22,175	5,300	71,603	974,266

12. Property, plant and equipment (cont'd)

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

13. Land use rights

	Group Rmb'000
Cost	
At 1 January 2007	–
Additions	48,691
At 31 December 2007 and 1 January 2008	48,691
Additions	27,111
At 31 December 2008	75,802
Accumulated amortisation	
At 1 January 2007	–
Amortisation charge for the year	217
At 31 December 2007 and 1 January 2008	217
Amortisation charge for the year	1,388
At 31 December 2008	1,605
Net carrying amount	
At 31 December 2007	48,474
At 31 December 2008	74,197
Amount to be amortised:	
- Not later than one year	1,570
- Later than one year but not later than five years	4,710
- Later than five years	67,917

The Group has land use rights over five (2007: four) plots of state-owned land in the People's Republic of China ("PRC") where the Group's PRC manufacturing and storage facilities reside. The land use rights have a weighted average remaining tenure of 48 years (2007: 48 years).

14. Investment in subsidiary

	Company 2008 Rmb'000	Company 2007 Rmb'000
Unquoted shares, at cost	800,000	400,000

The Company had the following subsidiary as at 31 December 2008:

Name of company	Country of incorporation and place of business	Principal activities	Equity interest held by the Group 2008 %	Equity interest held by the Group 2007 %
Henan Xinlianxin Fertiliser Co., Ltd.	People's Republic of China	Manufacture and sale of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution; and to carry out business relating to import and export of goods	100	100

15. Inventories

	Group 2008 Rmb'000	Group 2007 Rmb'000
Balance Sheet:		
Raw materials	178,379	111,789
Parts and spares	13,112	9,156
Work-in-progress	2,123	1,154
Finished goods	41,351	54,402
Goods-in-transit	–	2,024
Total inventories at lower of cost and net realisable value	234,965	178,525
Income Statement:		
Inventories recognised as an expense in cost of sales	1,488,943	963,203
Inclusive of the following charge:		
- Inventories written down	6,000	–

16. Prepayments

	Group		Company	
	2008	2007	2008	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Prepayment for purchase of plant and equipment	277,882	57,629	–	–
Prepayment to suppliers of raw materials	25,268	43,601	–	–
Prepayment for purchase of land use rights	–	5,667	–	–
Other prepayments	1,319	372	–	–
	304,469	107,269	–	–

17. Loans and other receivables

	Group		Company	
	2008	2007	2008	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Loans and receivables (current)				
Trade receivables	7,667	1,793	–	–
Bills receivable from banks	18,580	5,528	–	–
Other receivables	6,094	4,303	1,509	551
Due from related parties	–	1,998	307,536	–
Add:				
Cash and bank balances	189,429	56,789	12,352	5,254
Fixed deposits	10,685	453,529	10,685	435,078
Total loans and other receivables	232,455	523,940	332,082	440,883

Trade receivables

Trade receivables are non-interest bearing and are normally settled on 30 to 90 days' term. They are recognised at their original invoiced amounts which represent their fair values on initial recognition. Trade receivables are denominated in Renminbi.

Bills receivable from banks

Bills receivable from banks are non-interest bearing and are normally settled on 90 to 180 days' term.

17. Loans and receivables (cont'd)

Other receivables

	Group		Company	
	2008	2007	2008	2007
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Advances to employees	1,560	1,061	–	–
Deposits	18	–	17	–
Interest receivable	1,492	–	1,492	–
Others	3,024	3,242	–	551
	6,094	4,303	1,509	551

The Group does not have any other receivables balance which is past due as at the balance sheet date.

Due from related parties

Related parties comprise Henan Xinlianxin Chemicals Co., Ltd and its subsidiaries and associates which certain directors have significant influence over but did not form part of the Relevant Business acquired by the Group. The executive directors and executive officers have in total a 24% equity interest in Henan Xinlianxin Chemicals., Ltd.

Receivables that are past due but not impaired

The Group has trade receivables amounting to Rmb 12,623 (2007: Rmb 355,000) that are past due at the balance sheet date but not impaired. These receivables are unsecured and the analysis of their aging at the balance sheet date is as follows:

	Group	
	2008	2007
	Rmb'000	Rmb'000
Trade receivables past due		
30 to 90 days	9	88
91 to 270 days	4	267
	13	355

17. Loans and other receivables (cont'd)

Receivables that are impaired

	Group Individually Impaired	
	2008 Rmb'000	2007 Rmb'000
Trade receivables	322	409
Less: Allowance for doubtful trade receivables	(322)	(409)
	–	–
Movement in allowances:		
At 1 January	409	49
(Write-back)/charge for the year	(83)	360
Written-off	(4)	–
At 31 December	322	409

Trade receivables that are individually determined to be impaired at the balance sheet date relate to debtors that are in significant financial difficulties and have defaulted on payments. These receivables are not secured by any collateral or credit enhancements.

18. Derivatives

As at 31 December 2008, the Group entered into two non-deliverable interest rate swap agreements which pays a fixed rate interest of 2.55% per annum and receives a variable interest rate equal to USD LIBOR + 2.25% per annum on the notional amount on a quarterly basis. The swaps are being used to hedge cash flow interest rate risks arising from its floating rate USD bank loan amounting to USD 45,000,000 (Note 20). The floating rate bank loan and interest rate swaps have the same critical terms.

The fair value and notional amount of the non-deliverable interest rate swaps of the Group are as follows:

	Group	
	2008 Rmb'000	2007 Rmb'000
Fair value of net interest rate swaps	19,807	–
Notional amount of net interest rate swaps	263,816*	–

* Equivalent to USD 38,600,000.

The group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposures.

The above fair value changes on derivatives that are designated as hedging instruments in cash flow hedges to the extent that the hedge is effective are recognised directly in equity as hedging reserve as described in Note 2.24.

19. Deferred grant

	Group	
	2008	2007
	Rmb'000	Rmb'000
Cost		
At 1 January	8,240	–
Received during the year	1,500	8,240
At 31 December	9,740	8,240

Deferred grant relates to government grant given to the Group for installation and building of machineries with the aim to implement energy-saving production methods and reduce production cost. There are no unfulfilled conditions or contingencies attached to these grants.

20. Interest-bearing loans and borrowings

(a) Short-term borrowings

	Group	
	2008	2007
	Rmb'000	Rmb'000
Bank loans:		
Bank of China[1]	80,000	30,000
Bank of Communications[5]	–	40,000
China Construction Bank[2]	50,000	37,700
China Everbright Bank[3]	10,000	10,000
Guangdong Development Bank[5]	–	40,000
Shanghai Pudong Development Bank[4]	5,000	12,000
Xinxiang Commercial Bank[5]	–	80,000
	145,000	249,700
Long-term borrowings, current portion	–	37,300
	145,000	287,000

1 These two short-term bank loans (2007: one) are secured by a corporate guarantee from an unrelated third party and bear interest at a fixed rate. The weighted average rate of the two loans is 7.26% (2007: 6.57%) per annum.

2 This short-term bank loan (2007: one) is unsecured and bears interest at a fixed rate of 7.47% per annum.

3 This short-term bank loan (2007: one) is secured by a corporate guarantee from an unrelated third party and bears interest at a fixed rate of 6.57% per annum.

4 This short-term bank loan (2007: one) is secured by a corporate guarantee from an unrelated third party and bears interest at a fixed rate of 6.14% per annum.

5 These short term bank loans were repaid during the year.

20. Interest-bearing loans and borrowings (cont'd)

(b) Long-term borrowings

	Group		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Bank loans:				
China Construction Bank[1]	–	67,300	–	–
China Construction Bank[2]	100,000	–		
Industrial and Commercial Bank of China[3]	15,000	50,000	–	–
ABN AMRO and other banks[4]	307,557	–	307,557	–
	422,557	117,300	307,557	–
Loan from government[5]	10,417	10,348	–	–
Loan from related party[6]	90,000	–	90,000	–
	522,974	127,648	397,557	–
Due within 12 months	–	(37,300)	–	–
Due after 12 months	522,974	90,348	397,557	–

1 These long term bank loans were repaid during the year.

2 These three long-term bank loans (2007: five) are unsecured and bear interest at a fixed rate of 7.56% per annum. The loans are repayable in full in 2010.

3 This long-term bank loan (2007: one) is secured by a corporate guarantee from an unrelated third party and bears interest at a fixed are of 7.61% per annum. The loan is repayable in full in 2010.

4 This syndicated long-term bank loan has a principal sum of USD 45,000,000 is unsecured and bears interest at a floating rate of USD LIBOR + 2.25%. The LIBOR and applicable rate is revised every quarter. The loan principal is to be repaid in 7 quarterly instalments commencing 18 months from 30 Sept 08.

5 This loan from government bears interest at a floating rate of 0.3% above the market prime lending rate and is not expected to be repaid within the next 12 months.

6 This loan from related party, Henan Xinlianxin Chemical Ltd., bears interest at a fixed discount of 5% to the prevailing PBOC 5-year loan interest rate. The loan is for a period of five years and is not expected to be repaid within the next 12 months.

21. Financial liabilities

	Group 2008 Rmb'000	Group 2007 Rmb'000	Company 2008 Rmb'000	Company 2007 Rmb'000
Trade and other payables (current)				
Trade payables	47,760	27,685	–	–
Bills payable to bank	–	5,000	–	–
Other payables	154,302	179,501	–	–
Due to related parties	1,676	1,682	–	–
	203,738	213,868	–	–
Add:				
- Accruals and other liabilities (Note 22)	130,709	61,195	10,563	4,078
- Short-term borrowings (Note 20)	145,000	287,000	–	–
- Long-term borrowings (Note 20)	522,974	90,348	307,557	–
Total financial liabilities carried at amortised cost	1,002,421	652,411	318,120	4,078

Trade payables

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

Other payables

	Group 2008 Rmb'000	Group 2007 Rmb'000	Company 2008 Rmb'000	Company 2007 Rmb'000
Advance payments from customers	93,993	169,997	–	–
Deferred revenue	50,540	–		
VAT and other operating tax payables	1,707	3,269	–	–
Tender deposits	4,427	1,082	–	–
Staff deposits	375	46	–	–
Other	3,260	5,107	–	–
	154,302	179,501	–	–

These balances are unsecured, non-interest bearing and repayable on demand and have an average term of 3 months.

Bills payable to bank

Bills payable to bank have an average maturity period of 90 to 180 days and are interest-free. For the financial year ended 31 December 2007, there were bills payable amounting to Rmb 5,000,000, of which Rmb 3,508,000 were secured by fixed deposits and corporate guarantees.

Due to related parties

Amounts due to related parties are non-trade balances, which are unsecured, repayable on demand and non-interest bearing.

22. Accruals and other liabilities

	Group		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
Accrued operating expenses	32,017	26,064	10,563	4,078
Accruals for purchase of property, plant and equipment	98,692	35,131	–	–
	130,709	61,195	10,563	4,078

23. Deferred tax liabilities

	Group and Company	
	2008 Rmb'000	2007 Rmb'000
Withholding tax on undistributed profits of PRC subsidiary	18,617	14,725

On 22 February 2008, the State Administration of Taxation of China issued a circular Caishui [2008] No.001, which states that distribution of dividends after 1 January from pre-2008 profits will be exempt from withholding tax on distribution to foreign investors. As a result, there is no withholding tax liability arising from undistributed profits of the Company's PRC subsidiary accumulated up till 31 December 2007. Provision for deferred tax liabilities however, would be required in accordance with FRS 12.39 on profits accumulated from 1 January 2008 onwards.

As the Group had previously provided for deferred tax liabilities amounting to Rmb 14,725,000 in FY2007, income tax expense amounting to Rmb 3,892,000 has been recognised for the financial year ended 31 December 2008.

24. Share capital

	Group and Company	
	No. of shares '000	Value Rmb'000
Issued and fully paid:		
At beginning and end of the year		
- issued and paid ordinary shares	1,000,000	772,328*

* Equivalent to SGD 152,930,000.

25. Statutory reserve fund

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

26. Dividends

	Group	
	2008	**2007**
	Rmb'000	**Rmb'000**
Declared and paid during the year:		
- Final exempt (one-tier) dividend for 2007: SGD 1.4 cents per share	71,468*	–

* Equivalent to SGD 14,000,000.

	Group	
	2008	**2007**
	Rmb'000	**Rmb'000**
Proposed but not recognised as a liability as at 31 December:		
Dividends on ordinary shares, subject to shareholders' approval at the AGM:		
- Final exempt (one-tier) dividend for 2008: SGD 1.6 cents (2007: SGD 1.4 cents) per share	16,000	14,000

27. Segment information

Reporting format

The primary segment reporting format is determined to be business segments as the Group's risks and rates of return are affected predominantly by differences in the products produced. The operating businesses are organised and managed separately according to the nature of the products provided, with each segment representing a strategic business segment that offers different products and serves different markets.

Business segments

The Group's primary format for reporting segment information is business segments, with each segment representing a product category. The Group's business segment is organised into three main business segments, namely:

(i) Urea

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

27. Segment information (cont'd)

(ii) Compound fertiliser

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

(iii) Methanol

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

(iv) Service income

Service income pertains to the rendering of consultation and marketing services to the distributors in the various provinces; to help promote the sale of urea products from them to the final consumer. The Group mainly assists in co-ordinating the sales of Urea and promotional activities, and in providing knowledge of the products to the end consumer when necessary. The service contracts are on average, for a period of 6 months.

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

Geographical segments

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

Allocation basis and transfer pricing

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 operating income operating expenses, financial income and expenses and tax expense.

27. Segment information (cont'd)

Group assets and liabilities cannot be directly attributable to individual segments as it is impracticable to allocate them to the segments. Assets of the Group are utilised interchangeably between the different segments and there is no reasonable basis to allocate liabilities of the Group between the different segments. Accordingly, it is not meaningful to disclose assets, liabilities and capital expenditure by business segments.

Group 2008	Urea Rmb'000	Compound fertiliser Rmb'000	Methanol Rmb'000	Others Rmb'000	Elimination Rmb'000	Total Rmb'000
Revenue	1,281,996	708,268	214,836	36,302	(156,459)	2,084,943
Gross profit (loss)	256,760	167,646	42,401	21,063		487,870
Unallocated expenses, net						(115,538)
Finance expenses, net						(22,564)
Profit before tax						349,768
Income tax expense						(3,369)
Net profit attributable to shareholders						346,399
Write-back of doubtful trade receivables						(83)
Write-off of doubtful trade receivables						75
Depreciation of property, plant and equipment						78,465
Amortisation of land use rights						1,388

27. Segment information (cont'd)

Group 2007	Urea Rmb'000	Compound fertiliser Rmb'000	Methanol Rmb'000	Others Rmb'000	Elimination Rmb'000	Total Rmb'000
Revenue	1,034,135	400,521	205,891	14,155	(113,280)	1,541,422
Gross profit (loss)	292,866	58,715	66,745	(1,905)		416,421
Unallocated expenses, net						(73,037)
Finance expenses, net						(10,065)
Profit before tax						333,319
Income tax expense						(16,142)
Net profit attributable to shareholders						317,177
Allowance for doubtful trade receivables						360
Write-off of doubtful trade receivables						1,030
Write-off of tax recoverable						732
Write-off of technical know -how						1,350
Depreciation of property, plant and equipment						43,984
Amortisation of land use rights						217

28. Commitments

(a) Capital expenditure and other commitments contracted for as at the balance sheet date but not recognised in the financial statements are as follows:

	Group 2008 Rmb'000	Group 2007 Rmb'000
Capital expenditure		
Commitments in respect of contracts entered into for construction-in-progress	329,617	104,422
Others		
Commitments in respect of purchase of raw materials	262,572	21,193

28. Commitments (cont'd)

(b) Operating lease commitments

In addition to the land use rights disclosed in Note 13, the Group had operating lease agreements for buildings, plant and equipment, motor vehicle, staff quarters and canteen in the PRC. Certain of these leases have options for renewal. Lease terms do not contain restrictions on the Group's activities concerning dividends, additional debt or further leasing. Future minimum rentals payable under non-cancellable operating leases as at 31 December are as follows:

	Group	
	2008	2007
	Rmb'000	Rmb'000
Not later than 1 year	1,507	122
1 year through 5 years	5,550	488
Later than 5 years	39,248	548
	46,305	1,158

(c) Corporate guarantees

As at 31 December 2008, the Group had not provided corporate guarantees to unrelated third parties (2007: Rmb Nil). However, unrelated third parties have provided corporate guarantees to the Group to secure banking facilities as disclosed in Note 20. The fair values of these corporate guarantees have been determined to be insignificant.

29. Financial risk management objectives and policies

The Group and the Company are exposed to financial risks arising from its operations and the use of financial instruments. The key financial risks include credit risk, liquidity risk, interest rate risk and foreign currency risk. The Board of directors reviews and agrees policies and procedures for the management of these risks, which are executed by the Chief Financial Officer and Finance Manager. The Group and the Company do not apply hedge accounting for certain hedging relationships which qualify for hedge accounting.

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

(a) ***Credit risk***

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

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

29. Financial risk management objectives and (cont'd)

(a) ***Credit risk (cont'd)***

Exposure to credit risk

At the balance sheet date, the Group's and the Company's maximum exposure to credit risk is represented by:

– The carrying amount of each class of financial assets recognised in the balance sheets, including derivatives with positive fair values

Credit risk concentration profile

The Group determines concentrations of credit risk by monitoring the aging analysis of each product category of its trade receivables on an on-going basis. The credit risk concentration profile of the Group's trade receivables at the balance sheet date is as follows:

	Group			
	2008		2007	
	Rmb'000	% of total	Rmb'000	% of total
Urea	6,626	86	1,136	63
Compound fertiliser	1,036	13	521	29
Methanol	–	–	132	7
Others	5	1	4	1
Total	7,667	100	1,793	100

At the balance sheet date, approximately 53% (2007: 33%) of the Group's trade receivables were due from 10 major customers located in the PRC.

Financial assets that are neither past due nor impaired

Trade and other receivables that are neither past due nor impaired are creditworthy debtors with good payment record with the Group. Cash and cash equivalents and derivatives are placed with or entered into with reputable financial institutions.

Financial assets that are either past due or impaired

Information regarding financial assets that are either past due or impaired is disclosed in Note 17.

(b) ***Liquidity risk***

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

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

29. Financial risk management objectives and (cont'd)

(b) *Liquidity risk (cont'd)*

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

	Group							
	2008 Rmb'000				2007 Rmb'000			
	1 year or less	1 to 3 years	Over 3 years	Total	1 year or less	1 to 3 years	Over 3 years	Total
Trade payables	47,760	–	–	47,760	27,685	–	–	27,685
Other payables	154,302	–	–	154,302	179,501	–	–	179,501
Accruals and other liabilities	130,709	–	–	130,709	61,195	–	–	61,195
Interest-bearing loans and borrowings	145,000	449,410	10,767	605,177	287,000	86,038	10,613	383,651
Loan from related party	90,000	–	–	90,000	–	–	–	–

	Company							
	2008 Rmb'000				2007 Rmb'000			
	1 year or less	1 to 3 years	Over 3 years	Total	1 year or less	1 to 3 years	Over 3 years	Total
Accruals and other liabilities	10,563	–	–	10,563	4,078	–	–	4,078
Interest-bearing loans and borrowings	–	307,557	–	307,557	–	–	–	–

(c) *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of the Group's and the Company's financial instruments will fluctuate because of changes in market interest rates. The Group's and the Company's exposure to interest rate risk arises primarily from their loans and borrowings. All of the Group's and the Company's financial assets and liabilities at floating rates are contractually repriced every 12 months (2007: 12 months).

Sensitivity analysis for interest rate risk

Fair value sensitivity analysis for fixed rate instruments

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

29. Financial risk management objectives and policies (cont'd)

(c) ***Interest rate risk (cont'd)***

Cash flow sensitivity analysis for variable rate instruments

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

		Group	
		2008	2007
	Increase/ decrease in basis points	Effect on profit net of tax Rmb'000	Effect on profit net of tax Rmb'000
Interest expense			
RMB	+10	–	(105)
USD	+50	(219)	–
Interest income			
RMB	+10	36	54
SGD	+10	22	457
USD	+50	710	1

(d) ***Foreign currency risk***

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

	Group		Company	
	2008 Rmb'000	2007 Rmb'000	2008 Rmb'000	2007 Rmb'000
SGD	22,077	456,635	22,077	440,313
USD	142,031	19	961	19
	164,108	456,654	23,038	440,332

29. Financial risk management objectives and policies (cont'd)

(d) ***Foreign currency risk (cont'd)***

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

		Group	
		2008 Rmb'000 Profit (loss) net of tax	2007 Rmb'000 Profit (loss) net of tax
SGD	- strengthened 5% (2007: 1%)	1,104	4,566
	- weakened 5% (2007: 1%)	(1,104)	(4,566)
USD	- strengthened 2% (2007: 6%)	(1,966)	(1)
	- weakened 2% (2007: 6%)	1,966	1

30. Fair value of financial instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged or settled between knowledgeable and willing parties in an arm's length transaction, other than in a forced or liquidation sale.

Financial instruments whose carrying amount approximate fair value

Management has determined that the carrying amounts of cash and short term deposits, current trade and other receivables, interest rate swaps, current trade and other payables, other liabilities, current bank loans and non-current floating rate loans based on their notional amounts, reasonably approximate their fair values because these are mostly short term in nature or are repriced frequently.

31. Capital management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2008 and 31 December 2007.

As disclosed in Note 25, a subsidiary of the Group is required by the Foreign Enterprise Law of the PRC to contribute to and maintain a non-distributable statutory reserve fund whose utilisation is subject to approval by the relevant PRC authorities. This externally imposed capital requirement has been complied with by the above-mentioned subsidiary for the financial years ended 31 December 2008 and 2007.

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 to not more than 70%.

31. Capital management (cont'd)

The Group includes within net debt, loans and borrowings, trade and other payables, other liabilities, less cash and cash equivalents. Capital includes convertible redeemable preference shares, equity attributable to the equity holders of the parent less the fair value adjustment reserve and the above mentioned restricted statutory reserve fund.

	Group	
	2008 Rmb'000	2007 Rmb'000
Short-term borrowings	145,000	287,000
Long-term borrowings	432,974	90,348
Loan from related party	90,000	–
Trade payables	47,760	27,685
Bills payable to bank	–	5,000
Other payables	154,302	179,501
Due to related parties	1,676	1,682
Other liabilities	130,709	61,195
Less: Cash and cash equivalents	(200,114)	(506,810)
Net debt	802,307	145,601
Shareholders equity	1,450,906	1,156,168
Less: Statutory reserve fund	(77,770)	(40,514)
Less: Hedging reserve	(19,807)	–
Total capital	1,353,329	1,115,654
Capital and net debt	2,155,636	1,261,255
Gearing ratio	37.2%	11.5%

32. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2008 were authorised for issue in accordance with a resolution of the directors on 31 March 2009.

STATISTICS OF SHAREHOLDINGS

as at 17 March 2009

Analysis of shareholdings

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

Distribution of Shareholdings

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	8	0.15	2,633	0.00
1,000 - 10,000	3,340	61.23	21,586,048	2.16
10,001 - 1,000,000	2,087	38.26	95,927,000	9.59
1,000,001 and above	20	0.37	882,484,319	88.25
Total	5,455	100.00	1,000,000,000	100.00

List of 20 Largest Shareholders

No.	Name	No. of Shares	%
1	PIONEER TOP HOLDINGS LIMITED	343,376,000	34.34
2	GO POWER INVESTMENTS	280,944,000	28.09
3	DBS NOMINEES PTE LTD	60,761,154	6.08
4	UOB KAY HIAN PTE LTD	57,694,000	5.77
5	HSBC (SINGAPORE) NOMS PTE LTD	51,879,000	5.19
6	AMFRASER SECURITIES PTE. LTD.	24,450,000	2.45
7	CITIBANK NOMS S'PORE PTE LTD	17,315,000	1.73
8	RAFFLES NOMINEES PTE LTD	12,098,000	1.21
9	UNITED OVERSEAS BANK NOMINEES	8,047,000	0.80
10	DB NOMINEES (S) PTE LTD	4,227,000	0.42
11	DBSN SERVICES PTE LTD	4,108,000	0.41
12	HONG LEONG FINANCE NOMINEES PL	2,726,000	0.27
13	OCBC CAPITAL INVESTMENT	2,543,000	0.25
14	PHILLIP SECURITIES PTE LTD	2,480,000	0.25
15	ZHAI CHUNSHENG	2,111,000	0.21
16	OCBC SECURITIES PRIVATE LTD	2,078,000	0.21
17	CIMB-GK SECURITIES PTE. LTD.	1,781,000	0.18
18	DBS VICKERS SECS (S) PTE LTD	1,366,000	0.14
19	KIM ENG SECURITIES PTE. LTD.	1,292,165	0.13
20	OCBC NOMINEES SINGAPORE	1,208,000	0.12
	Total	882,484,319	88.25

Substantial Shareholders as shown in the register of substantial shareholders

Name	Direct Interest		Deemed Interest	
	No. of shares	%	No. of shares	%
Pioneer Top Holdings Limited	343,376,000*	34.34	–	–
Go Power Investments Limited	280,944,900**	28.09	–	–
Liu Xingxu	–	–	343,376,000*	34.34
Yan Yunhua	300,000	0.03	280,944,900**	28.09

* Pioneer Top Holdings Limited is a company incorporated in British Virgin Islands. Mr Liu holds 42% interest in Pioneer Top Holdings Limited, with the remaining 58% held on trust by Mr Liu for the beneficiaries under a trust arrangement. The beneficiaries under the trust arrangement are Li Buwen, with 16% equity interest, Li Yushun, Ru Zhengtao, Wang Nairen, Zhang Qingjin, Zhu Xingye and Shang Dewei, with 7% equity interest respectively.

** Go Power Investments Limited is a company incorporated in British Virgin Islands. Madam Yan holds 12.92% interest in Go Power Investments Limited, with the remaining 87.08% held on trust by Madam Yan for the beneficiaries under a trust arrangement. The beneficiaries under the trust arrangement comprise a total of 1,465 current and past employees and certain past and present customers/suppliers of the Group.

Percentage of Shareholdings In Public Hands

As at 17 March 2009, approximately 37.53% of the Company's shares are held in the hands of the public. Accordingly, the Company has complied with the Rule 723 of the Listing Manual issued by the Singapore Exchange Securities Trading Limited.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Third Annual General Meeting of the Company will be held at Connection 1, Level 3 Amara Hotel, 165 Tanjong Pagar Road, Singapore 088539, on Monday, 27 April 2009 at 10.30 a.m., to transact the following businesses: -

Ordinary Business

1. To receive and adopt the Directors' Report and Audited Financial Statements for the financial year ended 31 December 2008 and the Auditors Report thereon. (Resolution 1)

2. To declare a final dividend of 1.6 Singapore cents per ordinary share in respect of the financial year ended 31 December 2008. (Resolution 2)

3. To approve Directors' Fees of RMB 8.6 million for the year ended 31 December 2008. (Resolution 3)

4. To re-elect Mr Li Buwen, a Director retiring under Article 89 of the Articles of Association of the Company. (Resolution 4)

5. To re-elect Madam Yan Yunhua, a Director retiring under Article 89 of the Articles of Association of the Company. (Resolution 5)

6. To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 6)

As Special Business

To consider, and if thought fit, to pass the following Ordinary Resolutions (with or without amendments): -

7 (a). "That pursuant to Section 161 of the Companies Act, and the listing rules of the SGX-ST, approval be and is hereby given to the Directors of the Company at any time to such persons and upon such terms and for such purposes as the Directors may in their absolute discretion deem fit, to:

(i) issue shares in the capital of the Company whether by way of rights, bonus or otherwise;

(ii) make or grant offers, agreements or options that might or would require shares to be issued or other transferable rights to subscribe for or purchase shares (collectively, "Instruments") including but not limited to the creation and issue of warrants, debentures or other instruments convertible into shares;

(iii) issue additional Instruments arising from adjustments made to the number of Instruments previously issued in the event of rights, bonus or capitalisation issues; and

(b) (notwithstanding the authority conferred by the shareholders may have ceased to be in force) issue shares in pursuance of any Instrument made or granted by the Directors while the authority was in force, provided always that

(i) the aggregate number of shares to be issued pursuant to this resolution (including shares to be issued in pursuance of Instruments made or granted pursuant to this resolution) does not exceed 50% of the total number of issued shares excluding treasury shares, of which the aggregate number of shares (including shares to be issued in pursuance of Instruments made or granted pursuant to this Resolution) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 20% of the total number of issued shares excluding treasury shares, and for the purpose of this resolution, the total number of issued shares excluding treasury shares shall be the Company's total number of issued shares excluding treasury shares at the time this resolution is passed, after adjusting for;

(a) new shares arising from the conversion or exercise of convertible securities, or

(b) new shares arising from exercising share options or vesting of share awards outstanding or subsisting at the time this resolution is passed provided the options or awards were granted in compliance with Part VIII of Chapter 8 of the Listing Manual of the SGX-ST, and

(c) any subsequent bonus issue, consolidation or subdivision of the Company's shares,

(ii) the 50 per cent. limit in sub-paragraph (i) above may be increased to 100% for issues of shares and/or Instruments by way of a renounceable rights issue where shareholders of the Company are entitled to participate in the same on a pro-rata basis; and

(iii) such authority shall, unless revoked or varied by the Company at a general meeting, continue in force until the conclusion of the next annual general meeting or the date by which the next annual general meeting of the Company is required by law to be held, whichever is the earlier."

(Resolution 7)
[See Explanatory Note 1]

8. "That subject to and conditional upon the passing of Resolution 7 above, approval be and is hereby given to the directors of the Company at any time to issue shares (other than on a pro-rata basis to shareholders of the Company) at an issue price for each share which shall be determined by the directors of the Company in their absolute discretion provided that such price shall not represent a discount of more than 20 per cent. to the weighted average price of a share for trades done on the SGX-ST (as determined in accordance with the requirements of SGX-ST)." (Resolution 8)
[See Explanatory Note 2]

9. To transact any other business that may be transacted at an Annual General Meeting.

By Order of the Board

Ms Foo Soon Soo
Mr Jeremy Cheah Soon Ann
Joint Company Secretaries

Singapore, 11 April 2009

Explanatory Notes on Special Business to be transacted: -

1. The Ordinary Resolution 7 is to authorise the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares and convertible securities in the Company of which (a) the aggregate number of shares (including shares to be issued in pursuance of convertible securities granted) by way of a rights issue does not exceed 100% of the total number of issued shares excluding treasury shares, (b) the aggregate number of shares (including shares to be issued in pursuance of convertible securities granted) to be issued on a pro rata but non-renounceable basis to shareholders of the Company does not exceed 50% of the total number of issued shares excluding treasury shares, and (c) the aggregate number of shares (including shares to be issued in pursuance of convertible securities granted) to be issued other than on a pro rata basis to shareholders of the Company does not exceed 20% of the total number of issued shares excluding treasury shares provided always the aggregate number of shares (including shares to be issued in pursuance of convertible securities granted) under (a), (b) and (c) shall not exceed 100% of the total number of issued shares excluding treasury shares.

   The increased limit of up to 100% for renounceable rights issue will be effective up to 31 December 2010 pursuant to SGX-ST's notification dated 19 February 2009 and the increased limit is subject to the conditions that the issuer makes periodic announcements on the use of the proceeds as and when the funds are materially disbursed and provides a status report on the use of proceeds in the annual report.

2. In Ordinary Resolution 8, the increase in the discount limit of up to 20% for the issue of shares on a non-pro rata issue basis is effective up to 31 December 2010 pursuant to SGX-ST's notification dated 19 February 2009.

Note:-

A member of the Company entitled to attend and vote at the above meeting may appoint not more than two proxies to attend and vote on his behalf and such proxy need not be a member of this Company. The instrument appointing a proxy must be lodged at the Registered Office of the Company at 333, North Bridge Road, #08-00 KH KEA Building, Singapore 188721, not less than 48 hours before the Meeting.

Notice of Books Closure Date and Dividend Payment Date

NOTICE IS HEREBY GIVEN that the Share Transfer Books and Register of Members of the Company will be closed from 11 May 2009 after 5.00 p.m. to 13 May 2009, both dates inclusive, for the purpose of determining the Members' entitlements to the dividends to be proposed at the Annual General Meeting of the Company to be held on 27 April 2009.

Duly completed transfers in respect of shares in the Company received up to close of the business at 5.00 p.m. on 11 May 2009 by the Company's Share Registrar, KCK CorpServe Pte. Ltd., 333 North Bridge Road KH KEA Building #08-00, Singapore 188721 will be registered to determine Members' entitlements to such dividend. Members whose Securities Accounts with The Central Depository (Pte) Limited are credited with shares of the Company as at 5.00 p.m. on 11 May 2009 will be entitled to such proposed dividend.

The dividend, if approved at the Annual General Meeting, will be paid on 26 May 2009.

By Order of the Board

Ms Foo Soon Soo
Mr Jeremy Cheah Soon Ann
Joint Company Secretaries

Singapore, 11 April 2009

CHINA XLX FERTILISER LTD.
(Incorporated in the Republic of Singapore)

PROXY FORM

IMPORTANT

1. For investors who have used their CPF monies to buy shares in the Company, this Annual Report is forwarded to them at the request of their CPF Approved Nominees, and is sent solely FOR INFORMATION ONLY.
2. This proxy form is not valid for use by CPF investors and shall be ineffective for all intents and purposes if used or purported to be used by them.

I/We, ____ (Name)

of ____ (Address)

being *a member/members of CHINA XLX FERTILISER LTD. (the "Company"), hereby appoint

Name	Address	NRIC/ Passport No.	Proportion of shareholdings to be represented by proxy (%)
*and/or			

or failing him/her, the Chairman of the Meeting as *my/our *proxy/proxies, to vote for *me/us on *my/our behalf and, if necessary, to demand a poll at the Annual General Meeting of the Company to be held at Connection 1, Level 3 Amara Hotel, 165 Tanjong Pagar Road, Singapore 088539, on 27 April 2009 at 10.30 a.m. and at any adjournment thereof.

*I/We direct *my/our *proxy/proxies to vote for or against the Ordinary Resolutions to be proposed at the Annual General Meeting as indicated with an "X" in the spaces provided hereunder. If no specified directions as to voting are given, the *proxy/proxies will vote or abstain from voting at *his/their discretion.

No.	Ordinary Resolution	For*	Against*
1.	To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2008 and the Reports of the Directors and Auditors thereon.		
2.	To declare a final dividend of 1.6 Singapore Cents per share in respect of the financial year ended 31 December 2008.		
3.	To approve the Directors' fee of RMB 8.6 million for the financial year ended 31 December 2008.		
4.	To re-elect Mr Li Buwen, a Director of the Company, pursuant to Article 89 of the Company's Articles of Association.		
5.	To re-elect Madam Yan Yunhua, a Director of the Company, pursuant to Article 89 of the Company's Articles of Association.		
6.	To re-appoint Ernst & Young LLP as Auditors of the Company and to authorise the Directors to fix their remuneration.		
7.	To authorize Directors to issue shares pursuant to Section 161 of the Companies Act, Chapter 50.		
8.	Authority for directors to issue shares at a discount		

* *Please indicate your vote "For" or "Against" with a "✓"within the box provided.*

** *If you wish to exercise all your votes "For" or "Against", please tick (✓) within the box provided. Alternatively, please indicate the number of votes as appropriate.*

Dated this ____________ day of ________________ 2009.

Total Number of Shares Held

____

Signature(s) of Member(s)/Common Seal

Notes:

1. A member shall not be entitled to appoint more than two proxies to attend and vote at the Annual General Meeting. A proxy need not be a member of the Company.

2. Where a Member appoints more than one proxy, the Member shall specify the proportion of his shares to be represented by each such proxy, failing which the nomination shall be deemed to be alternative.

3. An instrument appointing a proxy for any Member shall be in writing and in the case of an individual Member, shall be signed by the Member or his attorney duly authorized in writing; and in the case of a Member which is a corporation shall be either given under its common seal or signed on its behalf by an attorney duly authorized in writing or a duly authorized officer of the corporation.

4. Any corporation which is a member of the Company may by resolution of its directors or other governing body authorize such person as it thinks fit to act as its representative at any General Meeting. The person so authorized shall be entitled to exercise the same powers on behalf of such corporation as the corporation could exercise if it were an individual member of the Company and such corporation shall for the purposes of the Company's Articles of Association (subject to the Act) be deemed to be present in person at any such meeting if a person so authorized is present thereat.

5. The instrument appointing proxy or proxies, together with the power of attorney or other authority (if any) under which it is signed, or notarially certified copy thereof, must be deposited at the registered office of the Company at 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721 not later than 48 hours before the time set for the Annual General Meeting.

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Affix
Postage
Stamp

The Company Secretary
CHINA XLX FERTILISER LTD.
333 North Bridge Road
#08-00 KH KEA Building
Singapore 188721

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6. A member should insert the total number of shares held. If the member has shares entered against his name in the Depository Register (as defined in Section 130A of the Companies Act, Chapter 50 of Singapore), he should insert that number of shares.

   If the member has shares registered in his name in the Register of Members of the Company, he should insert the number of shares. If the member has shares registered in his name in the Depository Register and shares registered in his name in the Register of Members of the Company, he should insert the aggregate number of shares. If no number of shares is inserted, this form of proxy will be deemed to relate to all the shares held by the member of the Company.

7. The Company shall be entitled and bound to reject any instrument of proxy lodged if the Depositor is not shown to have any shares entered against his name in the Depository Register as at forty-eight hours before the time of the Annual General Meeting as certified by the Depository to the Company; and to accept the maximum number of votes which in aggregate the proxy or proxies appointed by the Depositor is or are able to cast on a poll a number which is the number of shares entered against the name of that Depositor in the Depository Register as at forty-eight hours before the time of the Annual General Meeting as certified by the Depository to the Company, whether that number is greater or smaller than the number specified in any instrument of proxy executed by or on behalf of that Depositor.

8. A Depositor shall not be regarded as a member of the Company entitled to attend the Annual General Meeting and to speak and vote thereat unless his name appears on the Depository Register 48 hours before the time set for the Annual General Meeting.

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Company Registration No. 200610384G