China XLX Fertiliser Ltd.

Cultivating A Better Tomorrow

2007 Annual Report

Contents

About Us

China XLX Fertiliser Ltd. (“China XLX” or the “Group”) is located in the Henan province of the People’s Republic of China. Immersed in the central plains culture and Confucius teachings, the concept of “sincerity and trust” has been ingrained in our organization. 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.

Since our inception, we have been connecting with farmers with a conscience, treating our customers with sincerity, compassionate towards our employees, and expressive in our gratitude towards the community. Built on these principles, we have established ourselves as one of the significant players in the PRC’s fertiliser industry.

The Group is strategically located in the Economic Development Area of Xinxiang, one kilometre away from the Jingguang Railway in the north and three kilometres away from the 107 Highway in the south. Sited on 600k sqm of land, we have a workforce of 2,310 which includes over 500 mid to highly-skilled technical personnel. We are one of the largest coal-based producers of urea and compound fertiliser in the PRC, with an annual production capacity of 680,000 tons for urea, 300,000 tons for compound fertiliser and 100,000 tons for methanol.

We have received numerous accolades for our achievements, including “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”、“河南省诚信纳税大户”. We have also attained ISO09001:2000 and ISO14001: 2004 certifications for our quality management system and environmentally-friendly practices by the State Environmental Protection Administration and the China Nitrogenous Fertiliser Industry Association respectively. On 20 June 2007, we became the first Chinese chemical fertiliser enterprise to be publicly listed in Singapore when we successfully obtained a listing on the mainboard of SGX-ST.

We sell to fertiliser distributors across the PRC. Our products, distributed through a network of over 5,000 distribution points, are best-sellers in Henan, Shandong, Jiangsu, Anhui, Guangdong, Dongbei. In particular, our “Xinlianxin” urea and Compound Fertiliser have also achieved special recognition, including “国家免检产品”, “河南省名牌产品”and“河南省免检产品”. The “Xinlianxin” trademark is also deemed “河南省著名商标” by the Henan Administration of Industry and Commerce.

To cultivate a better tomorrow for customers, employees and society, our Group stays committed to developing our coal-based chemical business Moving ahead, the Group strives to build the “Xinlianxin” brand into a renowned domestic brand and grow our Group into a large-scale coal-based enterprise.

China XLX is a company with much potential in the fertiliser industry. Our mission is to cultivate “A Better Tomorrow” and grow the harvests for the peasants, raise attractive returns for shareholders, increase efficiency for customers and bring about the well-being of society.

Significant Events

2007

June
20 /

Listed on Mainboard of SGX-ST

July
13 /

Signed 5 year binding contract with Sinofert, the largest fertiliser distributor in China

October
4 /

Award recipient for "Most Transparent Company Award" in New Issues Category of the Investors Choice Awards 2007

10 /

EGM approved acquisition of old and new plants

13 /

Donated S$50,000 to SGX's The Bull Run 2007

November
16 /

Award recipient for "Best Investor Relations Awards"

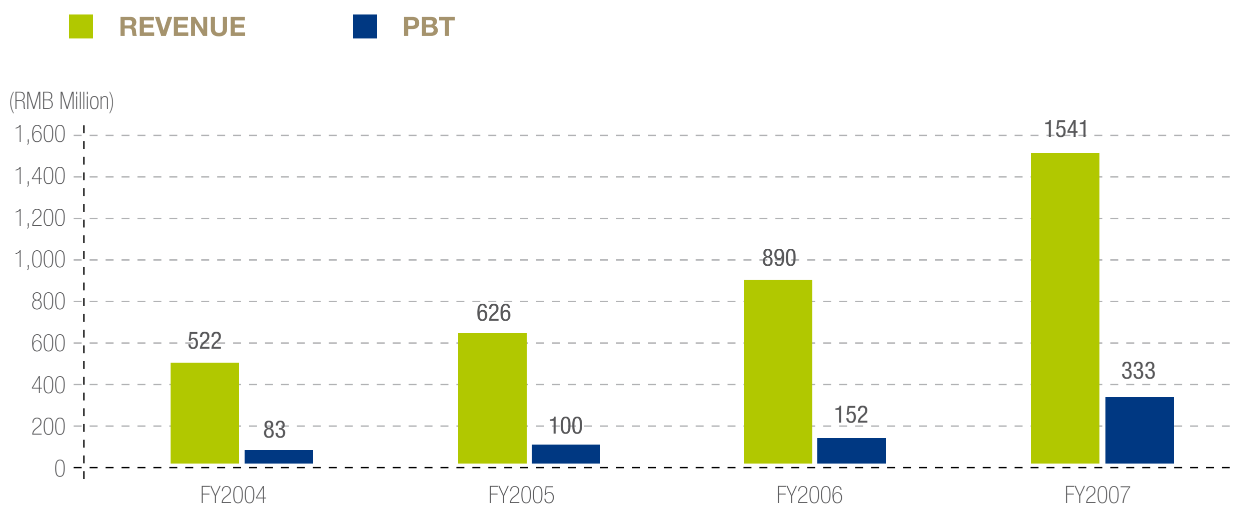
23 /

Ranked amongst "Henan 100 Most Important Industrial Enterprises"

December
14 /

Awarded "Certificate for Product Exemption from Quality Surveillance Inspection" for Xinlianxin Urea Fertiliser

Financial Highlights



RMB Million	FY2004	FY2005	FY2006	FY2007
Revenue	522	626	890	1,541
GP	131	151	212	416
GP margin	25.0%	24.1%	23.8%	27.0%
PBT	83	100	152	333
PAT	69	69	129	317
NP margin	13.2%	11.0%	14.5%	20.6%
Total assets	**473**	**731**	**579**	**1,833**

Chairman’s Message

Dear Shareholders,

I am pleased to present the inaugural annual report of China XLX Fertiliser Limited. On behalf of our Board of Directors, I welcome all of you as our Group’s valued shareholders.

FY2007 was an excellent year for China XLX. On 20 June 2007, we became the first fertiliser company to be successfully listed on the mainboard of the Singapore Stock Exchange. This event marks a significant milestone in the history of our Group.

Strong Capabilities

China XLX is principally engaged in the manufacture and sale of urea, compound fertiliser and methanol. Urea is our main product accounting for about 60.2% of FY2007 overall revenue or 70.3% of FY2007 overall gross profit.

Our key strength lies in our ability to be cost efficient. Due to our strategic cost advantages, our urea production cost is about 23% less than the industry average making us the lowest coal-based producer in Henan and the fourth lowest coal-based producer in the PRC.

Being cost-efficient is the most important strategy that one needs to adopt in any industry. Both urea and methanol products have little 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 65% 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 producer in the PRC. Secondly, our strategic location in Henan is very near the coal mines, thus enabling us to lower our coal transportation costs. Thirdly, having our own cogent plants reduces our electricity costs by about RMB10 cents/kwh. Fourthly, by adopting fully-automated techniques and advanced technologies, we consume less coal and electricity in our production of urea and methanol. Lastly, the production of urea and methanol in a fixed proportion helps us lower both urea and methanol costs due to cost synergies when both are produced at the same time.

We possess two main competitive advantages for our compound fertiliser. Firstly, we have the largest farmers’ service centre in Henan which we use to educate the farmers on proper application of compound fertiliser. This helps to increase their awareness of our “心连心” brand and our product acceptance. In FY2007, although there was no increase in our compound fertiliser production capacities, our compound fertiliser revenue increased 52.3% due to higher sales volume. Apart from having the largest service centre in Henan, we also enjoy better cost efficiencies in our compound fertiliser product as we use liquid urea, an intermediate product of solid urea which we sell, as the feedstock to produce compound fertiliser. The use of liquid urea also reduces the need for package and transportation.

Strong Results

FY2007 was a bountiful year for our Group in terms of our financial performance. Our revenue rose 73.2% from RMB890.2 million in FY2006 to RMB1.54 billion in FY2007. Our net profits soared by a sterling 145.7%, from RMB129.1 million in FY2006 to RMB317.2 million in FY2007. This was due mainly due to increased capacities in our second plant which commenced in September 2006, which saw a doubling of our production capacity for urea and tripling our production capacity for methanol. In addition, we also successfully reduced our costs which resulted in our overall margin rising to its highest of 27.0% since FY2004.


Mr Liu Xingxu
Chairman and CEO

Chairman's Message

Strong Prospects

Our industry, although increasingly competitive, offers promising growth prospects to our Group. China remains to be the world's largest producer and consumer of urea, and we are quite optimistic that the uptrend in the demand for our core products will be sustained in the coming years. Demand for urea and methanol is expected to remain strong on the back of high oil prices. This is because a significant amount of urea is used in growing corn which produces ethanol for bio-fuel use and methanol is used as feedstock for DME used in LPG. In our pursuit of long-term growth, we do not rule out the possibility of vertical integration as we continue to capitalise on the growing coal-based chemical industry and set sights on new business opportunities.

Currently, the Group have two production plants in Xinxiang, Henan. To ride on the increasing demand for urea in the PRC, we are now building a third urea plant which will increase our urea and methanol annual production capacities by 400k tons and 50k tons respectively. When completed by 3Q2009, we expect our total annual production capacities to be 1,120k tons of urea and 150k tons of methanol. In addition, our plan also includes constructing an additional 100k tons compound fertiliser production line every year, which will increase our current production capacity from 300k tons to 600k tons by end FY2010.

While we increase our production capacities, we also aim to improve our cost efficiency further each year through technical upgrading. The completion of our new power generator systems have increased our electricity self-sufficiency from 35% to 70%. This will reduce our electricity costs this year significantly. In addition, we are also planning to build a railway extension to our second plant, a move that will further reduce our transportation costs once completed. The third plant that we are now building is also expected to bring greater cost efficiencies with better technologies.

I cannot over-emphasise the importance of maintaining cost efficient as there may be potential deregulation in the industry. This will lead to an industry consolidation, where only the fittest will survive. Being large and cost-efficient will provide us greater opportunities to strengthen our industry leadership position further in this fragmented industry through acquisitions of smaller fertiliser producers in an increasingly competitive business environment. As such, we intend to focus on building a strong balance sheet to enable us to embark on any acquisition when the opportunities arise.

Acknowledgements

FY2007 was indeed a fruitful year for China XLX. Our achievements would not be possible without the people who continually strive for excellence for our Group.

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

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

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. The demand for crops continues to grow as the PRC and the world's population increase by the day. Fertilisers - a key element in crop cultivation will play a crucial role in the future of the PRC's agricultural industry. (Source: China National Chemical Information Center "CNCIC" report)

Among all fertiliser products in the PRC, nitrogenous fertilisers are the most widely produced and used. According to the CNCIC Report, production of nitrogenous fertilisers comprised 73.0% of the PRC's total fertiliser production in 2006. Moreover, urea is the most commonly used nitrogenous fertiliser in the PRC. According to the CNCIC report, the PRC is currently the largest urea producing and consuming country in the world. The key reason for the widespread use of urea is its high nitrogen content which makes it suitable for various types of crops and land.

With potential deregulation going forward, we expect the fertiliser industry to face possible consolidation. Smaller enterprises with higher cost structures will be most affected and the polarisation will bring about a consolidation where the fittest 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.

Cost becomes the key differentiating factor amongst fertiliser producers. To achieve superiority over the competition, we have effectively lowered costs through technology and research and development. We are the lowest cost coal-based producer of urea in Henan and the 4th largest coal-based producer of urea in the PRC.

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

Our Products

Urea

Urea provides nitrogen to crops and serves as a raw material for products such as agricultural fertilisers, plastic, resin, coating materials and pharmaceuticals.

Compound Fertiliser

Compound fertiliser includes nitrogen, phosphorus & potassium, all the nutrients that the soil needs and is suitable for the growing of wheat, paddy, corn, peanuts, tobacco, fruit trees, vegetables and cotton.

Methanol

Methanol is widely used in the industrial production of formaldehyde, Dimethoxymethane “DME”, synthetic fibre, plastic, pharmaceutical, pesticides, dye and synthetic protein.

Distribution Networks

● Regions with strong sales presence

▲ Regions with considerable sales presence

Core Competitiveness

Close proximity between coal-rich Shanxi and Xinxiang, Henan

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 .

Our total cost of producing urea is 23% less than the industry average in China due to the following factors:

Coal:

Coal constitutes about 43% of our costs, which is about 30% lower than the national average.

• ***Price:*** Our input prices are lower 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 24% of our costs, which is about 20% lower than the national average.

• ***Price:*** Our input prices are lower because we have power generator systems which provide us with electricity that is about

Core Competitiveness

RMB 10 cents / kwh cheaper than the utility board.

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

Product Reputation and Quality

Our group had been conferred several awards and certifications. In 2006, we obtained exemption from inspection for urea at the provincial level and inspection for Compound Fertiliser and Methanol at the state level. These are endorsements of our quality which led to our "心连心" brand being awarded Henan Province Well-Known Trademark since 2004. In 2007, our exemption for urea inspection was extended from provincial level to state level. 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.

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.

Water treatment plant


Prospects and Growth Drivers

1 Average Selling Prices

Rising oil prices has increased international urea prices substantially as urea is used in the cultivation of corn, a feedstock for bio-fuels. This ensures that urea prices will be maintained at high levels. Oil prices have also increased the price and demand for methanol. Methanol is used to produce Dimethoxymethane (DME), a feedstock for the production of Liquefied Petroleum Gas (LPG) or as a fuel additive.

Only urea is subject to price ceiling controls. We are hopeful that the PRC government will increase its existing price ceiling as it had done in 2004, 2005 and 2006.

(RMB)	2004	2005	2006	2007
Price ceiling	1,540	1,650	1,725	1,725*

* Subject to changes

2 Third Plant

China XLX is currently building a third plant to capitalise on the increasing demand for urea. This plant 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 in 3Q2009. In addition, the Group plans to undergo technical upgrades to its old plant which will increase its production capacity by 40,000 tons in FY2008. The Group also plans to increase its compound fertiliser production capacity by 100,000 tons each year up to FY2010. (See production capacity table on the right)

3 Greater Cost Efficiencies

China XLX management aims to reduce overall costs by about 5% baring any major input price increase. The greater cost efficiencies is expected to result from the technical upgrades in our old plant & higher electricity self-reliance. The new power generator systems in our old and new plant has increased our electricity self-reliance from 35% last year to 70%.

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%
2008F	720		300		100	
2009F	920		400		125	
2010F	1120		500*		150	

* 600K expected at end of FY2010

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

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

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

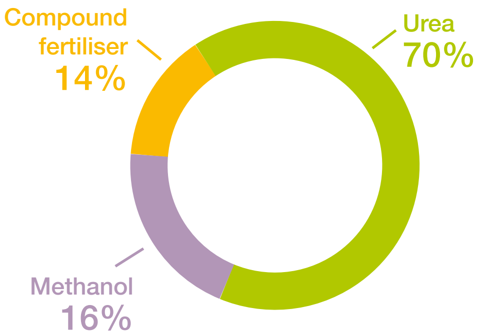
Registered Office
333 North Bridge Road #08-00 KH Kea Building,
Singapore 188721

Share Registrar
KCK CorpServe Pte. Ltd.
Tel: +65 6837 2133
Fax: +65 6339 3493

Bankers
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))

A Bountiful Year



The Group's main product is urea, which accounts for about 70% of our overall gross profit as urea is the most commonly used fertiliser in the PRC. Compound fertiliser accounts for about 14% while methanol constitutes the remaining 16% of our product 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.

Operations Review

Urea

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)

In 2007, we produced 705k tons of urea products, sold 593k tons and used 101k tons of urea for the production of compound fertiliser. Urea sales amounted to RMB928 million or 60% of total sales, a 72% increase when compared to FY2006. Gross profits from urea products registered RMB293 million or 70% of overall gross profit, an increase of 109% over the previous year.

Operations Review

Compound Fertiliser

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 2007, we produced 231k tons of high concentration compound fertiliser products, attained sales volume of 229k tons and realised sales of RMB401 million or 26% of total sales, an increase of 52% compared to FY06 despite having increase sales efforts in capacities. Gross profit from compound fertiliser products registered RMB59 million or 14% of overall gross profit, an increase of 42% over the previous year.

Methanol

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 2007, we produced 93k tons of methanol products, attained sales volume of 92k tons and realised sales of RMB206 million or 13% of total sales, an increase of 92% compared to FY06. Net profit from methanol products registered RMB67million or 16% of overall gross profits, also an increase of 116% over the previous year.

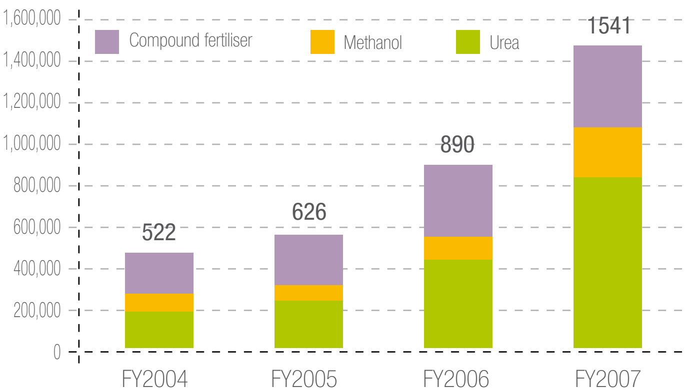
Financial Analysis

Financial Performance

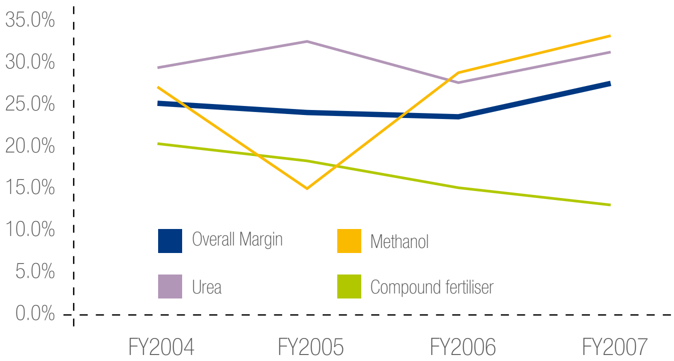
Financial year ended 31 December 2007 ("FY2007") had been a bountiful year for the Group with net profit increasing 146% to RMB317 million. The combined effect of the competitive advantages enjoyed by the Group had brought about record profits and margin registered for the year.

To a large extent, the stellar results were attributed to the commencement of the Group's new plant which commenced operations in September 2006, doubling the production capacity of urea and tripling the production capacity of methanol. Compound fertiliser sales quantities also increased by 40% although no new production capacities had been added as demand for the high-concentrated compound fertilisers that we sell increased.

Revenue (RMB'000)



In addition to production capacities increasing, the Group's overall profit margin also rose to its highest of 27% since FY2004.



Overall profits rose due to:

1. Increase in higher-yielding sales mix. Urea and methanol yielded higher margins than compound fertilisers. In 2007, the sales mix for urea & methanol increased by about 4%.

2. Greater cost efficiencies led to higher profit margins of urea and methanol. For instance, although average selling prices for urea in FY2007 remained similar to FY2006, the average cost of sales per tonne of urea decreased 5.7% due to greater resource

Financial Analysis

efficiences. This increased the gross margin for urea by about 4%. This was mainly due to commencement of the new plant which enabled the Group to reduce coal and electricity costs with better technologies.

3. Lower income tax expenses as the group's China subsidiary is a wholly foreign owned enterprise which enjoyed full exemption in its income taxes for FY2007. It will continue to enjoy full exemption in its income taxes for FY2008 and 50% exemption in FY2009, FY2010 and FY2011.

Financial Position

The Group is now in a much stronger balance sheet position at the end of FY2007 compared to end FY2006. Net assets increased from RMB67 million as of 31 December 2006 to RMB1.1 billion as of 31 December 2007. The main reason is due to the Initial Public Offering launched in June 2007 which increased its share capital by RMB772 million and net profits for the year of RMB317 million. Fixed assets increased by RMB806 million largely due to the acquisition of the old and new plants with its related liabilities (the "Assets") after obtaining shareholders approval in October 2007. Cash, bank balances and fixed deposits amounted to RMB510 million which after netting interest-bearing loans and borrowings amounted to a net cash position of RMB133 million.

Cash flow

Cash and cash equivalents increased by RMB349 million in FY2007. This was due mainly to the net proceeds from the issue of new shares of approximately RMB772 million, proceeds from loans of RMB30 million, proceeds from government grants of RMB8 million and net cash flow generated from operations of RMB308 million. The increase in cash and cash equivalents were partially offset by the discharge of loans and borrowings, acquisition of Assets, repayment of liabilities from Assets acquired and purchase of property, plant and equipment of RMB327 million, RMB210 million, RMB235 million and RMB168 million respectively.

(from left to right)

Top Row

Mr Li Shengxiao
Mr Zhang Qingjin
Mr Wang Nairen
Mr Ru Zhengtao

Front Row

Mr Li Buwen
Mr Ong Wei Jin
Mr Liu Xingxu
Mr Ong Kian Guan
Ms Yan Yunhua

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.

The Group's Board of Directors with members of the management team during China XLX Fertiliser Ltd.'s IPO launch.

Mr Ong Kian Guan

Independent Director

Mr Ong was appointed to our Board of Directors on 11 May 2007. Since October 2005, Mr Ong has been an audit partner with Baker Tilly TFWLCL. From December 2004 to September 2005, he was an audit partner with Moores Rowland Singapore and Mazars Singapore. Mr Ong was employed as the Chief Financial Officer of Medtecs International Corporation Limited from August 2002 to November 2004. From June 2002 to July 2002, he was the Finance Director of Aztech Systems Limited. Prior to that, from June 1992 to June 2002, Mr Ong was an auditor with international accounting firms and his last position held being a Senior Audit Manager with Arthur Andersen. Mr Ong graduated with a Bachelor of Accountancy in June 1992 from the Nanyang Technological University in Singapore.

He sits on the board of China Animal Healthcare Ltd, JES International Holding Ltd, China Energy Limited, China Haida Ltd, Midsouth Holdings Ltd. and others.

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.

Key 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.

Group Structure



心 连 心

China XLX

100%

Henan XLX

China XLX Fertiliser in the News

China fertiliser producer launches IPO at 77¢ a share

By Gabriel Chen

CHINA XLX Fertiliser, a major coal-based producer of urea and compound fertiliser based in China's Henan province, is launching its initial public offering (IPO) today for a mainboard listing.

The company is selling 262.88 million shares at 77 cents each – six million to the public and the rest in placements to institutional investors. It hopes to raise net proceeds of $145.8 million.

The offer price represents a price-to-earnings ratio of about 24 times, which is calculated using net profit after tax of 129.1 million yuan (S$25.9 million) for financial year 2006 and pre-offering share capital of 800 million shares.

The company has two production plants.

The newer of the two plants commenced production in September last year, and has been operating on a full-scale production level since Jan 1.

China XLX's total annual production capacity for urea and methanol has more than doubled to 680,000 tonnes and 100,000 tonnes respectively with the commissioning of the new plant.

Its chief executive and chairman, Mr Liu Xingxiu, said the Singapore listing will put the firm on a "stronger footing" in terms of marketing and finances.

"With the added financial muscle gained from our IPO, I believe China XLX is well-positioned to capture greater market share in China's chemical fertiliser industry," he said.

The company plans to acquire the two production plants which are currently leased with $41.4 million of the net proceeds. It will use $9.9 million to construct a new power generator system, while the balance will be earmarked for general working capital.

Trading is expected to begin two days after the offer closes next Monday at noon.

Business

SGX-listed China XLX inks 5-year deal with Sinochem

RECENT Singapore Exchange (SGX) debutant China XLX Fertiliser has signed a five-year distributorship agreement with Sinochem Fertiliser Company.

Sinochem is an indirect, wholly-owned subsidiary of Sinofert Holdings Limited, the largest compound fertiliser producer and distributor on the mainland.

Under the deal announced yesterday, Sinochem will get 300,000 tons of nitrogenous fertiliser from Henan Xin Lian Xin Fertilizer – a subsidiary of China XLX.

Sinochem will also provide the latter with a stable supply of potassium, a key raw material used in the manufacture of compound fertiliser.

Last week, stocks of China XLX closed at $1.35, registering a 75.3 per cent premium over its 77-cent offer price.

The China-based company was listed on the SGX on June 21. — HEDIRMAN SUPIAN

CHINA XLX NOT HIT BY HEAVY SNOW

CHINA XLX Fertiliser said its business, sales and production are "not adversely affected" by heavy snow in southern China and Beijing's moves to curb inflationary pressures on food prices, and hence urea and potash fertiliser prices.

The coal-based urea fertiliser producer said recent moderate snow in its sales regions will lift soil moisture and make it easier for the application of fertilisers.

Most of its sales were to the central regions of China. Its coal supply has been stable to date as they have sufficient coal reserves and have raised their number of suppliers to over 20, from over 10.

中国心连心化肥盈利率增加

尽管无烟煤（anthracite coal）的价格在今年1至2月份上涨了，中国心连心化肥公司（China XLX Fertiliser）的盈利率却有增无减，主要因为尿素（urea）价格的上扬与更有效的成本控制。

相较于上财年全年，集团的无烟煤平均价格在今年首两个月每吨约增加了76元（人民币，下同）。由于每吨尿素是由约0.67吨煤生产出来的，尿素成本每吨本应增加约51元。但相较于上财年全年，集团的尿素平均成本在这两个月份每吨却仅仅增长了31元（约3%）。

这主要是因为科技提升所带来的成本效率与电费开支的节省。自从新发电机系统开始营运后，电力的自给自足（ self-sufficiency）从35%提升到70%，促使电费大大减少。

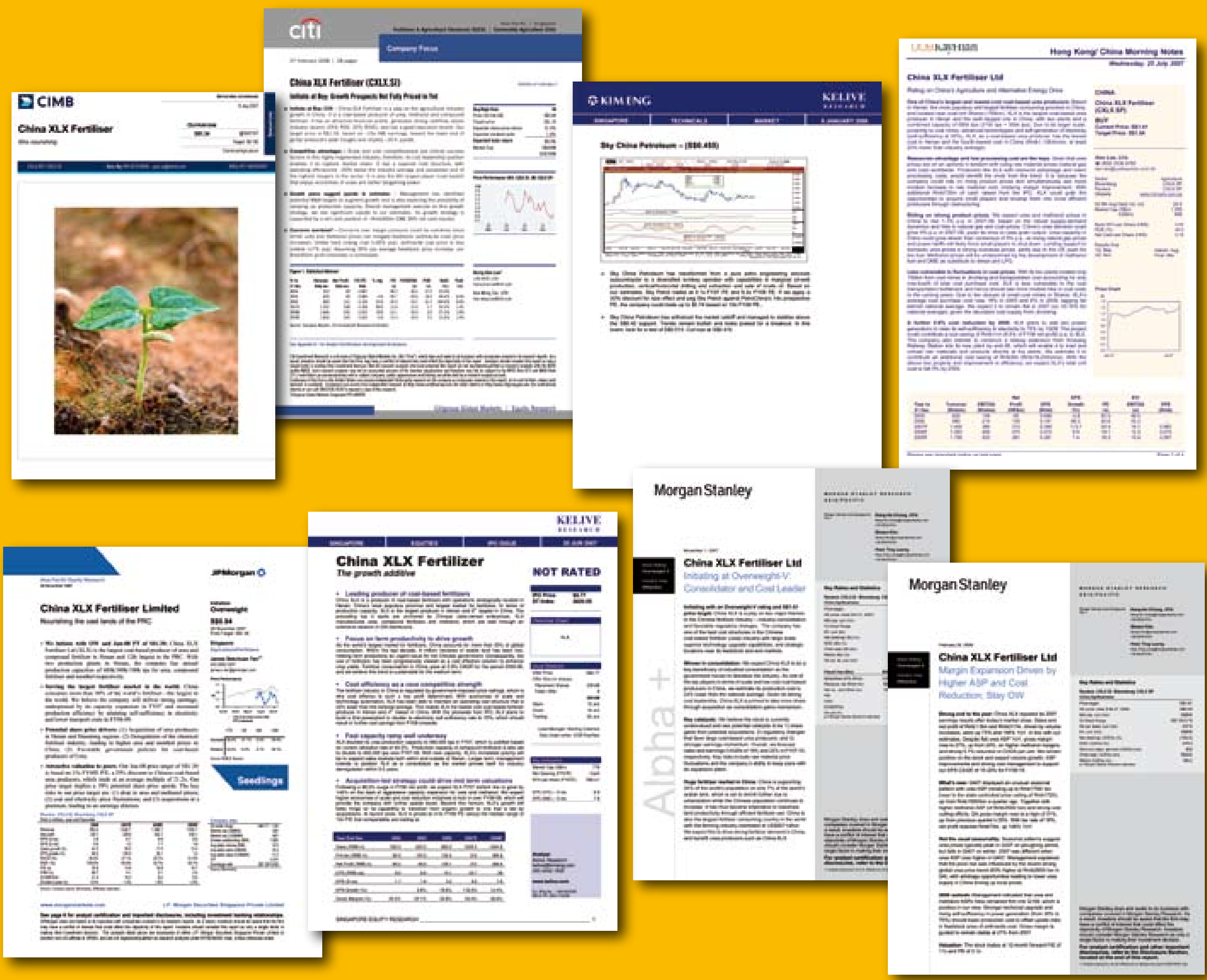
根据以往经验，煤价通常在冬季达到最高水平。由于冬季已过，而煤矿也恢复全面生产，煤的供应接下来料将有所改善。

在现财年的首两个月，尿素平均销售价格的增长比尿素生产成本的增长更加快速。尿素平均销售价格增至每吨1720元，比上财年全年的平均价格高出约10%。

除了尿素以外，集团的总毛利率也增加了。在成本效率策略实施之下，管理层有信心盈利率将继续成为尿素行业中最高其中之一。

集团目前在建造第三个尿素厂，预计最迟在明年第三季投产。它每年将有40万吨尿素与5万吨甲醇（methanol）的产量，有助于分别提升集团尿素与甲醇的产能约60%与50%。

Analyst Reports



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Contributing in Different Ways

The Group's core value is to be cost efficient and at the same time be socially and environmentally responsible. The Group strives to improve society's welfare and minimise any adverse impact on the natural environment.

Corporate Citizenship

Social Responsibility

The Group has the largest farmers' service centre in Henan. It's 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.

Environmental Protection

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.


Building Trust that Instills
Confidence

China XLX Fertiliser Ltd., (the "Company") was admitted to the Official list of the Singapore Exchange Securities Trading Limited ("SGX-ST") on 20 June 2007. 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)
Ms 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 Board and Board Committees and the attendance of all Directors for the financial year ended 31 December 2007 since the Company was admitted to the official list of the SGX-ST on 20 June 2007: -

	BOARD	AUDIT COMMITTEE	REMUNERATION COMMITTEE	NOMINATING COMMITTEE
Number of meetings held	3	2	1	1
Mr Liu Xingxu	3	–	–	1
Ms Yan Yunhua	3	–	–	–
Mr Li Buwen	3	–	–	–
Mr Ong Kian Guan	3	2	1	–
Mr Li Shengxiao	3	2	1	1
Mr Ong Wei Jin	2	1	–	1

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

Board Composition and Balance

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

The Board consists of six Directors, of whom three are Independent 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 37 and 38 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 set 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 the policy 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.

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 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 ensures 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 shareholders for approval 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 2007 are as follows:

	Number of directors		Top Five Key Executive	
	2007	2006	2007	2006
$500,000 and above	1	–	–	–
$250,000 to $499,999	2	–	–	–
Below $249,999	3	5	5	5
Total	6	5	5	5

The summary compensation table for the Directors and top five key executives of the Group for the financial year ended 31 December 2007 is set out below:

	Salary %	Bonus %	Directors' Fees %	Allowances and Other Benefits %	Total Compensation %
Directors					
Below S$249,999					
Executive Directors: -					
Mr Liu Xingxu	31	69	–	–	100
Ms Yan Yunhua	33	67	–	–	100
Mr Li Buwen	33	67	–	–	100
Non-Executive Directors: -					
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 2007.

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, 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 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 utilisation (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	32.4	422.0
Net IPO proceeds raised	714.4	292.4	422.0

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 persons 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 2007 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	253,668	–

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.

Directors' Report

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 2007.

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 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
Ong Kian Guan	–	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	55	343,376,000
Yan Yunhua	45	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 2008.

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 and debentures of the Company, or of related corporations, either at the beginning or at the end of the financial year.

Directors' Report

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 (except as disclosed in the financial statements) by reason of a contract made by the Company or a related corporations 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 2007, 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:

- Review the audit plans and reports of our internal and external auditors;
- Review of the financial statements before submission to the Board for approval;
- Review and consider the appointment or re-appointment of the external auditors and matters relating to resignation or dismissal thereof;
- Review of interested person transactions (within the definition of the Listing Manual) involving the Group in accordance with the Listing Manual;
- Review the effectiveness and adequacy of the internal accounting and financial control procedures;
- Generally undertake such other functions and duties as may be required by the Listing Manual;
- 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
- Consider the appointment and termination of our internal auditors

The AC, having reviewed all non-audit services provided by the external auditors to the Group, 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 two meetings during the year with full attendance from all members, except for one where a member was absent. 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 have expressed their willingness to accept reappointment as auditors.

On behalf of the board of directors:

Liu Xingxu
Director

Yan Yunhua
Director

Singapore
25 March 2008

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 2007, 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 are due.

On behalf of the board of directors:

Liu Xingxu
Director

Yan Yunhua
Director

Singapore
25 March 2008

Independent Auditors' Report

To the Members of China XLX Fertiliser Ltd.

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 41 to 74, which comprise the balance sheets of the Group and the Company as at 31 December 2007, the statements of changes in equity of the Group and the Company, 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.

Opinion

In our opinion,

(i) the consolidated financial statements 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 2007 and the results, changes in equity and cash flows of the Group and 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
Public Accountants and Certified Public Accountants

Singapore
25 March 2008

Consolidated Income Statement

for the financial year ended 31 December 2007

(Amounts expressed in Renminbi)

	Note	2007 Rmb'000	2006 Rmb'000
Revenue	3	1,541,422	890,175
Cost of sales		(1,125,001)	(678,607)
Gross profit		416,421	211,568
Other operating income	4	23,764	10,371
Selling and distribution expenses		(20,166)	(9,712)
General and administrative expenses		(76,635)	(41,487)
Profit from operations	5	343,384	170,740
Financial income	8	7,997	3,124
Financial expenses	8	(18,062)	(21,447)
Profit before tax		333,319	152,417
Income tax expense	9	(16,142)	(23,333)
Net profit attributable to shareholders		317,177	129,084
Earnings per share (Rmb cents per share)			
Basic and diluted	10	50.91	20.68

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

Balance Sheets

as at 31 December 2007

(Amounts expressed in Renminbi)

	Note	Group 2007 Rmb'000	Group 2006 Rmb'000	Company 2007 Rmb'000	Company 2006 Rmb'000
ASSETS					
Non-current assets					
Property, plant and equipment	11	974,266	216,780	–	–
Land use rights	12	48,474	–	–	–
Investment in subsidiary	13	–	–	400,000	107,570
		1,022,740	216,780	400,000	107,570
Current assets					
Inventories	14	178,525	118,006	–	–
Prepayments	15	107,269	32,709	–	1,706
Trade receivables	16	1,793	14,150	–	–
Bills receivable from banks	16	5,528	9,840	–	–
Other receivables	16	4,303	5,461	551	–
Due from related parties	16	1,998	11,902	–	–
Cash and bank balances		56,789	154,573	5,254	628
Fixed deposits		453,529	15,629	435,078	2,998
		809,734	362,270	440,883	5,332
TOTAL ASSETS		1,832,474	579,050	840,883	112,902
EQUITY AND LIABILITIES					
Current liabilities					
Deferred grant	17	8,240	–	–	–
Income tax payable		930	17,256	930	–
Interest-bearing loans and borrowings	18	287,000	130,263	–	110,263
Trade payables	19	27,685	28,963	–	–
Bills payable to bank	19	5,000	18,000	–	–
Other payables	19	179,501	180,074	–	1,874
Due to related parties	19	1,682	–	–	–
Accruals and other liabilities	20	61,195	17,736	4,078	–
		571,233	392,292	5,008	112,137
NET CURRENT ASSETS/(LIABILITIES)		238,501	(30,022)	435,875	(106,805)
Non-current liabilities					
Interest-bearing loans and borrowings	18	90,348	120,094	–	–
Deferred tax liabilities	21	14,725	–	–	–
		105,073	120,094	–	–
TOTAL LIABILITIES		676,306	512,386	5,008	112,137
NET ASSETS		1,156,168	66,664	835,875	765
Equity attributable to equity holders of the Company					
Share capital	22	772,328	1	772,328	1
Statutory reserve fund	23	40,514	6,745	–	–
Accumulated profits		343,326	59,918	63,547	764
TOTAL EQUITY		1,156,168	66,664	835,875	765
TOTAL EQUITY AND LIABILITIES		1,832,474	579,050	840,883	112,902

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 2007

(Amounts expressed in Renminbi)

Group	Share capital (Note 22) Rmb'000	Statutory reserve fund (Note 23) Rmb'000	Accumulated profits Rmb'000	Total equity Rmb'000
Year ended 31 December 2006				
Balance at 1 January 2006	45,876	14,479	123,942	184,297
Increase in share capital	1	–	–	1
Profit for the year, representing total recognised income for the year	–	–	129,084	129,084
Adjustment for net assets not transferred pursuant to the Restructuring Exercise	–	–	(126,541)	(126,541)
Loans taken up to finance the acquisition of subsidiary pursuant to the Restructuring Exercise	(45,876)	(14,479)	(47,215)	(107,570)
Dividends (Note 24)	–	–	(12,607)	(12,607)
Transfer to statutory reserve fund	–	6,745	(6,745)	–
Balance at 31 December 2006	1	6,745	59,918	66,664
Year ended 31 December 2007				
Balance at 1 January 2007	1	6,745	59,918	66,664
Profit for the year, 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)	–
Balance at 31 December 2007	772,328	40,514	343,326	1,156,168

Company	Share capital (Note 22) Rmb'000	Accumulated profits Rmb'000	Total equity Rmb'000
Year ended 31 December 2006			
At date of incorporation	1	–	1
Profit for the year, representing total recognised income for the year	–	764	764
Balance at 31 December 2006	1	764	765
Year ended 31 December 2007			
Balance at 1 January 2007	1	764	765
Profit for the year, 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)
Balance at 31 December 2007	772,328	63,547	835,875

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 2007

(Amounts expressed in Renminbi)

	2007 Rmb'000	2006 Rmb'000
Cash flows from operating activities		
Profit before tax	333,319	152,417
Adjustments for:		
Amortisation of land use rights	217	182
Amortisation of deferred grants	–	(2,941)
Depreciation of property, plant and equipment	43,984	46,402
Gain on disposal of property, plant and equipment	(23)	(1,001)
Dividend income from other investments	–	(910)
Allowance for doubtful trade receivables	360	49
Write-off of doubtful trade receivables	1,030	–
Write-off of tax recoverable	732	–
Write-off of low value consumables	43	–
Write-off of technical know-how	1,350	–
Interest income	(7,997)	(3,124)
Interest expense	18,062	21,447
Total adjustments	57,758	60,104
Operating profit before changes in working capital	391,077	212,521
Changes in working capital		
Decrease (increase) in:		
Inventories	(60,519)	(52,380)
Prepayments	(32,248)	(1,621)
Trade and bills receivables	15,279	(13,316)
Other receivables	1,709	(2,386)
Due from related parties	9,904	28,565
Increase (decrease) in:		
Trade and bills payables	(14,278)	34,987
Other payables	(27,712)	88,647
Due to related parties	1,682	–
Other liabilities	43,458	(2,564)
Total changes in working capital	(62,725)	79,932
Cash flows generated from operations	328,352	292,453
Grant received	8,240	–
Interest received	7,446	3,124
Interest paid	(18,062)	(20,102)
Tax paid	(18,475)	(23,419)
Net cash flows from operating activities	307,501	252,056

(Amounts expressed in Renminbi)

	2007 Rmb'000	2006 Rmb'000
Cash flows from investing activities		
Acquisition of Assets (Note C)	(209,909)	–
Repayment of liabilities relating to the acquisition of Assets	(234,938)	–
Dividend income from other investments	–	910
Purchase of property, plant and equipment (Note B)	(168,375)	(247,514)
Proceeds from disposal of short-term investments	–	1,849
Proceeds from disposal of property, plant and equipment	519	1,833
Purchase of other investments	–	(10,000)
Net cash used in investing activities	(612,703)	(252,922)
Cash flows from financing activities		
Fixed deposits received in relation to the acquisition of Assets (Note C)	3,000	–
Net proceeds from issuance of shares	–	1
Proceeds from issuance of ordinary shares pursuant to the conversion of the Pre-IPO Investors Convertible Loan	57,893	–
Proceeds from issuance of new ordinary shares pursuant to the IPO	770,000	–
Share issue expense	(55,566)	–
Proceeds from loans and borrowings	30,255	335,148
Repayments of loans and borrowings	(160,264)	(83,523)
Decrease (increase) in fixed deposits pledged	9,123	(19,212)
Dividends paid	–	(12,607)
Consideration for acquisition of subsidiary pursuant to the Restructuring Exercise	–	(107,570)
Net cash from financing activities	654,441	112,237
Net increase in cash and cash equivalents	349,239	111,371
Cash and cash equivalents not transferred	–	(28,762)
Cash and cash equivalents at 1 January	157,571	74,962
Cash and cash equivalents at 31 December (Note A)	506,810	157,571

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 balance sheet amounts:

	2007 Rmb'000	2006 Rmb'000
Fixed deposits	453,529	15,629
Cash and bank balances	56,789	154,573
Cash and bank deposits	510,318	170,202
Less: Fixed deposits pledged	(3,508)	(12,631)
Cash and cash equivalents	506,810	157,571

Cash and bank balances denominated in Renminbi have an average effective interest rate of 0.78% per annum for the financial year ended 31 December 2007 (2006: 0.72%). Cash and bank balances denominated in Singapore Dollars have an average effective interest rate of 1.81% per annum for the financial year ended 31 December 2007. No interest income is earned on bank balances denominated in United States Dollars.

The fixed deposits denominated in Singapore Dollars have an effective interest rate of 1.92% per annum and an average maturity of 33 days. The fixed deposits denominated in United States Dollars have an effective interest rate of 5.01% per annum (2006: 4.52%) and an average maturity of 10 days (2006: 7 days).

Consolidated Cash Flow Statement

for the financial year ended 31 December 2007

(Amounts expressed in Renminbi)

Notes to the cash flow statement (cont'd)

A. Cash and cash equivalents (cont'd)

Cash and bank deposits are denominated in the following currencies:

	2007 Rmb'000	2006 Rmb'000
Renminbi	53,664	166,576
Singapore Dollars	456,635	414
United States Dollars	19	3,212
	510,318	170,202

B. Property, plant and equipment

	2007 Rmb'000	2006 Rmb'000
Current year additions to property, plant and equipment	123,083	198,488
Less: Prepayments made in prior year	(15,819)	(107,340)
Payable to creditors	(4,510)	(7,761)
	102,754	83,387
Add: Prepayments made in current year	57,629	151,484
Payments for prior year purchase	7,992	12,643
Net cash outflow for purchase of property, plant and equipment	168,375	247,514

C. Acquisition of Assets

In the Company's Prospectus dated 11 June 2007, the Company disclosed its intention to acquire the assets of the Old and New Plants (the "Assets") from Henan Xinlianxin Chemicals Co., Ltd. Following shareholders approval on 10 October 2007, the Group completed the acquisition of the Assets on 12 October 2007. The net cash outflow in relation to the acquisition of Assets is as follows:

	2007 Rmb'000	2006 Rmb'000
Acquisition of property, plant and equipment (Note 11)	678,883	–
Acquisition of land use rights (Note 12)	48,691	–
Acquisition of current assets	4,895	–
	732,469	–
Less: Other payables	(98,760)	–
Interest-bearing loans	(423,800)	–
Acquisition of Assets	209,909	–
Fixed deposits received in relation to the acquisition of Assets	(3,000)	–
Net cash outflow in relation to the acquisition of Assets	206,909	–

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

1. Corporation information

1.1 *The Company*

The Company was incorporated in Singapore under the name of Xin Lian Xin Holdings Pte. Ltd. as an investment holding company for the purpose of acquiring the subsidiary company pursuant to the Group Restructuring Exercise. The Company changed its name to China XLX Fertiliser Pte. Ltd. with effect from 22 February 2007. On 11 May 2007, the Company changed its name to China XLX Fertiliser Ltd. in connection with its conversion from a private limited company to a public company limited by shares.

On 20 June 2007, the Company was admitted to the official list of Singapore Exchange Securities Trading Limited. The Company issued 200,000,000 new ordinary shares at S$0.77 per share in connection with its initial public offering. The net proceeds arising thereon amounted to approximately Rmb 714,434,000. The registered office of the Company is at 333 North Bridge Road, #08-00 KH Kea Building, Singapore 188721 and 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 13.

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 Group's principal operations are conducted in the PRC and thus the financial statements are prepared in Renminbi (Rmb), being the measurement and presentation 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 2007, except for the changes in accounting policies discussed below.

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

On 1 January 2007, the Group adopted the new or revised FRS that are mandatory for application from that date. Changes to the Group's accounting policies have been made as required, in accordance with the relevant transitional provisions in the respective FRS. The following are the FRS that are relevant to the Group:

FRS 1	Amendment to FRS 1 (revised), Presentation of Financial Statements (Capital Disclosures)
FRS 107	Financial Instruments: Disclosures

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

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

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

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

			Effective for annual periods beginning on or after
FRS 23	:	Amendment to FRS 23, Borrowing Costs	1 January 2009
FRS 108	:	Operating Segments	1 January 2009
INT FRS 111	:	Group Treasury Share Transactions	1 March 2007
INT FRS 112	:	Service Concession Arrangements	1 January 2008

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.

2.3 *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.

(a) *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:

(i) Depreciation 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 8-10 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 2007 was Rmb 704,237,000 (2006: Rmb 167,472,000). 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. A 5% difference in the expected useful lives of the plant and machinery would result in approximately 0.6% (2006: 1.5%) variance in the Group's profit for the year.

(ii) 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 2007 was Rmb 930,000 (2006: Rmb 17,256,000).

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

2.3 *Significant accounting estimates and judgements (cont'd)*

(b) *Critical judgement made in applying accounting policies*

There are no accounting judgements made in the process of applying the Group's accounting policies that are expected to have a significant effect on the amounts recognised in the 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 closing rate of exchange ruling at the respective balance sheet dates. 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 respective balance sheet dates are recognised in the income statement.

2.5 *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 are prepared for the same reporting date as the parent company. Consistent accounting policies are applied for like transactions and events in similar circumstances.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

The consolidated financial statements of the Group for the financial year ended 31 December 2006 were prepared in accordance with the principles of merger accounting. Under this method, the Relevant Business acquired by the subsidiary from XLX Chem has been deemed to be operating under the Group for the financial year presented rather than from the date of completion of the Restructuring Exercise. Similarly, the Company has been treated as the holding company of its subsidiary for the financial years presented rather than from the date of completion of the Restructuring Exercise. Accordingly, the consolidated results of the Group for the years ended 31 December 2006 include the results of the Relevant Business and the subsidiary for the entire periods under review.

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

2.5 *Subsidiaries and basis of consolidation (cont'd)*

(b) *Basis of consolidation (cont'd)*

Pursuant to this:

- Assets and liabilities are consolidated at their existing carrying amounts;
- No amount is recognised for goodwill; and
- The Group's share capital represents the Company's paid-up share capital for the financial year ended 31 December 2006.

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.

2.6 *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.

2.7 *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	8-10	3-10%
Office equipment and furniture	5	3-10%
Motor vehicles	5	3-10%

Construction-in-progress relates to buildings and plant and machinery and these are depreciated only when they become 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. Summary of significant accounting policies (cont'd)

2.8 *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.

2.9 *Impairment of non-financial assets*

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of 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 recognised for an asset 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 in prior years. Reversal of an impairment loss is recognised in the income statement. After such a reversal, 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.

2.10 *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.

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

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

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

2.10 *Financial assets (cont'd)*

(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.

2.11 *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 are subject to an insignificant risk of change 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 *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 2.13 below.

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

2.13 *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 loans and receivables or held-to-maturity investments 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). 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. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

(b) *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.

2.14 *Inventories*

Inventories are stated at the lower of cost and net realisable value. Cost incurred in bringing the inventories to their present location and condition is 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 but 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. Summary of significant accounting policies (cont'd)

2.15 *Financial liabilities*

Financial liabilities are recognised on the balance sheet 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.

2.16 *Borrowing costs*

Borrowing costs are generally expensed as incurred.

2.17 *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.

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

2.18 *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 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) *Interest income*

Interest income is recognised using the effective interest method.

2.19 *Grant*

Grant income 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 it on a systematic basis to the costs that it is intended to compensate. Grants related to an asset may be presented in the balance sheet by deducting the grant in arriving at the carrying amount of the asset.

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

2.20 *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.

2.21 *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.

(b) *Deferred tax*

Deferred income 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

- 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 income 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 income 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 income 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.

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

2.21 *Income taxes (cont'd)*

(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.

3. Revenue

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

4. Other operating income

	Group	
	2007 Rmb'000	2006 Rmb'000
Sale of by-products	3,717	2,278
Management fees from related parties	962	300
Service fee income from related parties	1	295
Other service fee income	11	755
Amortisation of deferred grants	–	2,941
Dividend income from other investments	–	910
Unrealised exchange gain	11,116	2,183
Realised exchange gain	7,487	–
Others	470	709
	23,764	10,371

5. Profit from operations

This is determined after charging (crediting) the following and items in Notes 4 and 6:

	Group	
	2007	2006
	Rmb'000	Rmb'000
Amortisation of land use rights	217	182
Depreciation of property, plant and equipment	43,984	46,402
Gain on disposal of property, plant and equipment	(23)	(1,001)
Allowance for doubtful trade receivables	360	49
Write-off of doubtful trade receivables	1,030	–
Write-off of technical know-how	1,350	–
Research expenses	993	1,694
Pre-operating expenses	–	3,328
Transportation expenses	7,968	1,918
Operating lease expenses		
- related parties	34,360	13,512
- others	737	664
Director fees	700	–
Personnel expenses* (Note 7)	76,402	41,457

* Includes directors' remuneration and remuneration of key management personnel as disclosed in Note 6.

6. 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	
	2007	2006
	Rmb'000	Rmb'000
Sale of property, plant and equipment	–	78
Sale of finished goods	319	1,389
Sale of raw materials and consumables	137	456
Sale of water, electricity and steam	2,737	2,087
Service fee income	72	295
Management fee income	–	300
Purchase of finished goods	728	–
Purchase of raw materials and consumables	2,681	3,294
Service fee expenses	766	496
Operating lease expenses	34,360	13,512
Payment of behalf	1,998	–
Acquisition of Assets	209,909	–

These transactions were between the Group and Henan Xinlianxin Chemicals., Ltd and its subsidiaries and associates which the Group has 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.

6. Related party transactions (cont'd)

(b) Compensation of directors and key management personnel

	Group	
	2007 Rmb'000	2006 Rmb'000
Salaries and bonus	9,977	1,590
Contribution to defined contribution plans	89	43
	10,066	1,633
Comprise amounts paid to:		
- Directors of the Company	8,145	883
- Other key management personnel	1,921	750
	10,066	1,633

7. Personnel expenses

	Group	
	2007 Rmb'000	2006 Rmb'000
Salaries and bonus	70,593	34,042
Contribution to defined contribution plans	4,119	4,035
Welfare expenses	1,690	3,380
	76,402	41,457

	2007	2006
Number of employees	2,310	1,920

8. Financial income (expenses)

	Group	
	2007 Rmb'000	2006 Rmb'000
Interest income		
- bank deposits	7,996	769
- related party balances	–	2,234
- others	1	121
	7,997	3,124
Interest expense		
- bank loans	14,766	18,259
- bills receivable discounted	–	368
- loans from employees	–	644
- convertible loan	3,041	1,150
- government loans	255	875
- others	–	151
	18,062	21,447

9. Income tax expense

Major components of income tax expense

The major components of income tax expense for the financial years ended 31 December 2007 and 2006 are:

	Group	
	2007	2006
	Rmb'000	Rmb'000
Income statement:		
Current income tax		
- Current income taxation	930	50,244
- Under provision in respect of previous year	487	–
- Tax credit	–	(26,911)
	1,417	23,333
Deferred income tax		
- Current deferred income tax	14,725	–
Income tax expense recognised in the income statement	16,142	23,333

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 2006 and 2007 is as follows:

	Group	
	2007	2006
	Rmb'000	Rmb'000
Profit before tax	333,319	152,417
Tax at the domestic rates applicable to profits in the countries where the Group operates	99,526	47,652
Tax effect of expenses not deductible in determining taxable profit, net	14,951	2,592
Tax credit	–	(26,911)
Effect of tax exemption	(98,822)	–
Under provision in respect of previous year	487	–
Income tax expense recognised in the income statement	16,142	23,333

The corporate income tax rate applicable to the Company was reduced to 18% for the year of assessment 2008 onwards from 20% for year of assessment 2007. The above reconciliation is prepared by aggregating separate reconciliations for each national jurisdiction.

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.

In accordance with Temporary Rules on the Offset of Corporate Income Tax for the Investment by Technology Innovation on State-Manufactured Machines and Equipment promulgated by the State Taxation Bureau and Ministry of Finance, effected on 1 July 1999, any enterprise which invests in the project of technology innovation and complies with PRC industrial policies will be entitled to income tax credits used to offset income tax payable. Specifically, in the event that there is an increase in the income tax payable in a current financial year over the income tax payable in the previous financial year, then 40% of the purchase price of any state-manufactured machines and equipment purchased during that current financial year may be used to offset such increase in income tax payable. Accordingly, under the above scheme, the Group was awarded tax credits of Rmb 26,911,000 for the financial year ended 31 December 2006 relating to purchases of locally manufactured machines and equipment for approved technology innovation projects.

10. Earnings per share

Earnings per share is calculated by dividing the Group's net profit attributable to shareholders for the financial year by using the weighted average number of 623,014,000 (2006: 624,320,000) ordinary shares outstanding during the financial year ended 31 December 2007.

11. Property, plant and equipment

	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
31 December 2006							
Group							
Cost							
At 1 January 2006	27,626	12,246	254,914	10,067	2,960	68,332	376,145
Additions	219	4,887	60,951	5,116	1,725	125,590	198,488
Reclassifications	3,059	8,615	32,994	7,699	–	(52,367)	–
Disposals	(189)	(82)	(504)	(102)	(481)	(40)	(1,398)
Assets not transferred	(30,715)	(562)	(57,926)	(1,297)	(2,972)	(131,735)	(225,207)
At 31 December 2006	–	25,104	290,429	21,483	1,232	9,780	348,028
Accumulated depreciation							
At 1 January 2006	8,476	2,804	82,868	2,311	1,312	–	97,771
Depreciation charge for the year	1,879	1,523	40,448	1,775	777	–	46,402
Disposals	(101)	(7)	(352)	(22)	(84)	–	(566)
Assets not transferred	(10,254)	(5)	(7)	(467)	(1,626)	–	(12,359)
At 31 December 2006	–	4,315	122,957	3,597	379	–	131,248
Net carrying amount							
At 31 December 2006	–	20,789	167,472	17,886	853	9,780	216,780
31 December 2007							
Group							
Cost							
At 1 January 2007	–	25,104	290,429	21,483	1,232	9,780	348,028
Acquisition of Assets	83,642	62,889	525,620	1,288	1,476	3,968	678,883
Additions	368	2,258	21,784	4,780	3,464	90,429	123,083
Reclassifications	–	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. Land use rights

	Group Rmb'000
Cost	
At 1 January 2006	15,555
Additions	–
Assets not transferred	(15,555)
At 31 December 2006 and 1 January 2007	–
Acquisition of Assets	48,691
At 31 December 2007	48,691
Accumulated amortisation	
At 1 January 2006	713
Amortisation charge for the year	182
Assets not transferred	(895)
At 31 December 2006 and 1 January 2007	–
Amortisation charge for the year	217
At 31 December 2007	217
Net carrying amount	
At 31 December 2006	–
At 31 December 2007	48,474

Amount to be amortised:	
- Not later than one year	1,007
- Later than one year but not later than five years	4,026
- Later than five years	43,441

The Group has land use rights over 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.

13. Investment in subsidiary

	Company	
	2007 Rmb'000	2006 Rmb'000
Unquoted shares, at cost	400,000	107,570

The Company had the following subsidiary as at 31 December 2007:

Name of company	Country of incorporation and place of business	Principal activities	Equity interest held by the Group	
			2007 %	2006 %
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

14. Inventories

	Group 2007 Rmb'000	Group 2006 Rmb'000
Raw materials	111,789	74,974
Parts and spares	9,156	8,073
Work-in-progress	1,154	3,112
Finished goods	54,402	31,847
Goods-in-transit	2,024	–
Total inventories at lower of cost and net realisable value	178,525	118,006

For the financial years ended 31 December 2007 and 2006, there has been no inventory written off or allowance for inventory obsolescence.

15. Prepayments

	Group		Company	
	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
Prepayment for purchases of plant and equipment	57,629	15,820	–	–
Prepayment to suppliers of raw materials	43,601	15,080	–	–
Prepayment for land use rights	5,667	–		
Other prepayments	372	1,809	–	1,706
	107,269	32,709	–	1,706

16. Trade receivables and other receivables

	Group		Company	
	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
Trade and other receivables (current)				
Trade receivables	1,793	14,150	–	–
Bills receivable from banks	5,528	9,840	–	–
Other receivables	4,303	5,461	551	–
Due from related parties	1,998	11,902	–	–
Add:				
Cash and bank balances	56,789	154,573	5,254	628
Fixed deposits	453,529	15,629	435,078	2,998
Total loans and receivables	523,940	211,555	440,883	3,626

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 90-180 days' term.

16. Trade receivables and other receivables (cont'd)

Other receivables

	Group 2007 Rmb'000	Group 2006 Rmb'000	Company 2007 Rmb'000	Company 2006 Rmb'000
Advances to employees	1,061	2,590	–	–
Deposits	–	1,639	–	–
Others	3,242	1,232	551	–
	4,303	5,461	551	–

The Group do 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 the Group has 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 355,000 (2006: Rmb 741,000) 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 2007 Rmb'000	Group 2006 Rmb'000
Trade receivables past due		
30 to 90 days	88	269
91 to 270 days	267	472
	355	741

Receivables that are impaired

	Group Individually Impaired 2007 Rmb'000	Group Individually Impaired 2006 Rmb'000
Trade receivables	409	322
Less: Allowance for doubtful trade receivables	(409)	(49)
	–	273
Movement in allowances:		
At 1 January	49	–
Charge for the year	360	49
At 31 December	409	49

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.

17. Deferred grant

	Group	
	2007	2006
	Rmb'000	Rmb'000
Cost		
At 1 January	–	20,000
Received during the year	8,240	–
Not transferred	–	(20,000)
At 31 December	8,240	–
Accumulated amortisation		
At 1 January	–	4,325
Amortisation	–	2,941
Not transferred	–	(7,266)
At 31 December	–	–
Net carrying value		
Current	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.

18. Interest-bearing loans and borrowings

(a) Short-term borrowings

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Bank loans:				
Bank of China[1]	30,000	–	–	–
Bank of Communications[2]	40,000	–	–	–
China Construction Bank[3]	37,700	–	–	–
China Everbright Bank[4]	10,000	–	–	–
Guangdong Development Bank[5]	40,000	–	–	–
Shanghai Pudong Development Bank[6]	12,000	–	–	–
Xinxiang Commercial Bank[7]	80,000	–	–	–
ABN AMRO Bank[8]	–	54,665	–	54,665
	249,700	54,665	–	54,665
Convertible loan[9]	–	55,598	–	55,598
	249,700	110,263	–	110,263
Long-term borrowings, current portion	37,300	20,000	–	–
	287,000	130,263	–	110,263

1 These short-term bank loans are secured by a corporate guarantee from an unrelated third party and bear interest at 6.570% per annum.

2 These short-term bank loans are secured by a corporate guarantee from an unrelated third party and bear interest at 6.732% per annum.

3 These short-term bank loans are secured by a corporate guarantee from an unrelated third party and bear interest at 6.390% per annum.

4 These short-term bank loans are secured by a corporate guarantee from an unrelated third party and bear interest at 6.833% per annum.

5 These short-term bank loans are secured by a corporate guarantee from an unrelated third party and bear interest at 7.020% per annum.

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

(a) Short-term borrowings (cont'd)

6 These short-term bank loans are secured by a corporate guarantee from an unrelated third party and bear interest at 7.524% per annum.

7 These short-term bank loans are secured by a corporate guarantee from an unrelated third party and bear interest at 6.030% per annum.

8 This short-term bank loan bore interest at 12.85% (LIBOR plus 7.5%) per annum and was secured by:

- pledge of the entire equity interests in the subsidiary held by the Company;
- assignment of all funding (including shareholders loans, if any) provided by the Company to the subsidiary;
- subordination of the Convertible Loan;
- personal guarantees from certain directors of the Company; and
- undertaking by the directors to upstream to the Company the maximum amount of dividends permitted by applicable laws (up to the loan amount outstanding at the relevant time) and not to change the management team of the Company and the subsidiary.

This short-term bank loan was repaid during the year.

9 On 16 October 2006, the Company entered into a Convertible Loan Agreement wherein the investors agreed to grant the Company a convertible loan facility of an aggregate amount of USD7.12 million in consideration of the right to convert the full sum of the convertible loan into fully paid new ordinary shares of the Company. The convertible loan was utilised as partial payment for the acquisition of the 100% equity interest in Henan Xinlianxin Fertiliser Co., Ltd.

The term of the convertible loan facility shall commence from the funding date and expire on the earlier of 30 June 2008 or the termination of the proposed listing of the Company. In the event the proposed listing of the Company is not successful, compensation costs at the compounded annual rate of 10% per annum on the full principal amount, calculated on the basis of the actual days elapsed and a 365-day year, commencing from the funding date to the repayment date, shall be payable by the Company to the investors.

The fair value of the liability component and the equity conversion component were determined at the date of the Convertible Loan Agreement. The fair value of the liability component, included in current liabilities, was estimated using the prevailing market interest rate for a similar debt without a conversion option and has been assessed to approximate the principal amount received. Accordingly, there is no residual amount for the equity conversion component.

On 11 May 2007, the Convertible Right was exercised and fully paid shares were allotted and issued to the investors.

(b) Long-term borrowings

	Group	
	2007 Rmb'000	2006 Rmb'000
Bank loans:		
China Construction Bank[1]	7,300	–
China Construction Bank[2]	60,000	80,000
Industrial and Commercial Bank of China[3]	50,000	50,000
	117,300	130,000
Loan from government[4]	10,348	10,094
	127,648	140,094
Due within 12 months	(37,300)	(20,000)
Due after 12 months	90,348	120,094

1 This long-term bank loan is secured by a corporate guarantee from an unrelated third party and bears interest at 6.300% per annum.

2 This long-term bank loan is secured by a corporate guarantee from an unrelated third party and bears interest at a floating rate of 15% above the People's Bank of China's prime lending rate. 2 semi-annual instalments of Rmb 10,000,000 were repaid in 2007 and 4 semi-annual instalments of Rmb 15,000,000 were repayable in October 2008 and October 2009.

3 This long-term bank loan is secured by a corporate guarantee from an unrelated third party and bears interest at a floating rate of not more than 30% above the People's Bank of China's prime lending rate. The loan is repayable in full in April 2010.

4 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.

19. Trade and other payables

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Trade and other payables (current)				
Trade payables	27,685	28,963	–	–
Bills payable to bank	5,000	18,000	–	–
Other payables	179,501	180,074	–	1,874
Due to related parties	1,682	–	–	–
	213,868	227,037	–	1,874
Add:				
- Other liabilities (Note 20)	61,195	17,736	4,078	–
- Short-term borrowings (Note 18)	287,000	130,263	–	110,263
- Long-term borrowings (Note 18)	90,348	120,094	–	–
Total financial liabilities carried at amortised cost	652,411	495,130	4,078	112,137

Trade payables

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

Other payables

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Advance payments from customers	169,997	172,509	–	–
VAT and other operating tax payables	3,269	4,015	–	–
Tender deposits	1,082	75	–	–
Staff deposits	46	14	–	–
Other	5,107	3,461	–	1,874
	179,501	180,074	–	1,874

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 90-180 days and are interest-free. They are secured by fixed deposits of the Group, amounting to Rmb 3,508,000 as of 31 December 2007 (2006: Rmb 12,631,000) and corporate guarantees from unrelated third parties.

Due to related parties

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

20. Accruals and other liabilities

	Group		Company	
	2007	2006	2007	2006
	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Accrued operating expenses	26,064	9,987	4,078	–
Accruals for purchase of property, plant and equipment	35,131	7,749	–	–
	61,195	17,736	4,078	–

21. Deferred tax liabilities

Deferred tax liabilities arise as a result of timing differences.

22. Share capital

	Group and Company	
	Number of shares '000	Value S$'000
Issued and fully paid:		
At dates of incorporation, 17 July 2006 - issued and nil paid 100 ordinary shares	1	1
Upon sub-division of 100 shares into 624,320,000 ordinary shares	624,320	1
Conversion of convertible loan into 175,680,000 new ordinary shares at S$0.002 – S$0.16 per share pursuant to the Convertible Loan Agreement	175,680	11,419
Issuance of 200,000,000 new ordinary shares at S$0.77 per share pursuant to the public offering of the Company less issue expense	200,000	141,510
At year end - 1,000,000,000 ordinary shares	1,000,000	152,930*

* Equivalent to Rmb 772,328,000.

At the written resolutions of the Shareholders passed on 11 May 2007, the Shareholders approved, inter alia, the following:

(a) the sub-division of 100 ordinary shares in the issued capital of the Company into 624,320,000 ordinary shares in the issued share capital of the Company;

(b) following the share split, the conversion of the convertible loan into 175,680,000 new ordinary shares at S$0.02-S$0.16 per share pursuant to the Convertible Loan Agreement;

(c) the allotment and issue of 200,000,000 New Shares a S$0.77 per share, pursuant to the Invitation. The New Shares, when fully paid, allotted and issued, will rank pari passu in all respects with the existing issued and fully paid shares.

The Company issued 200,000,000 New Shares at S$0.77 per share in connection with its initial public offering. The net proceeds arising thereon amounted to S$141,510,000.

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restrictions.

23. 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.

24. Dividends

	Group	
	2007	**2006**
	SGD'000	**Rmb'000**
Declared and paid during the year:		
Dividends declared to the then existing shareholders of XLX Chem prior to the Restructuring Exercise	–	12,607
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 2007: 1.4 SGD cents (2006: Nil) per share	14,000	–

25. 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.

(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.

25. Segment information (cont'd)

Business segments (cont'd)

(iii) Methanol

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

In addition to the three main 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.

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 **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)
Financial 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

25. Segment information (cont'd)

Geographical segments (cont'd)

Group 2006	**Urea Rmb'000**	**Compound fertiliser Rmb'000**	**Methanol Rmb'000**	**Others Rmb'000**	**Elimination Rmb'000**	**Total Rmb'000**
Revenue	601,867	262,983	106,973	14,257	(95,905)	890,175
Gross profit (loss)	140,132	41,384	30,924	(872)		211,568
Unallocated expenses, net						(40,828)
Financial expenses, net						(18,323)
Profit before tax						152,417
Income tax expense						(23,333)
Net profit attributable to shareholders						129,084
Allowance for doubtful trade receivables						49
Depreciation of property, plant and equipment						46,402
Amortisation of land use rights						182

26. 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 2007 Rmb'000	**Group 2006 Rmb'000**
Capital expenditure		
Commitments in respect of contracts entered into for construction-in-progress	104,422	29,059
Others		
Commitments in respect of purchase of raw materials	21,193	14,647

(b) Operating lease commitments

In addition to the land use rights disclosed in Note 12, 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 2007 Rmb'000	**Group 2006 Rmb'000**
Not later than 1 year	122	43,875
1 year through 5 years	488	78,461
Later than 5 years	548	2,592
	1,158	124,928

(c) Corporate guarantees

As at 31 December 2007, the Group had not provided corporate guarantees to unrelated third parties (2006: Rmb 66,900,000). However, unrelated third parties have provided corporate guarantees to the Group to secure banking facilities as disclosed in Note 18. The fair values of these corporate guarantees have been determined to be insignificant.

27. Financial risk management objectives and policies

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

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. The Group and the Company does not trade in any derivative financial instruments.

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 at the balance sheet date is as follows:

	Group			
	2007		2006	
	Rmb'000	% of total	Rmb'000	% of total
Urea	1,136	63	2,719	19
Compound fertiliser	521	29	10,930	77
Methanol	132	7	28	1
Others	4	1	473	3
Total	1,793	100	14,150	100

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 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 16.

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

(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.

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.

	2007 Rmb'000				2006 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
Group								
Trade payables	24,582	2,500	603	27,685	26,489	2,458	16	28,963
Other payables	178,291	776	434	179,501	178,915	909	250	180,074
Other liabilities	59,613	731	851	61,195	12,085	4,920	731	17,736
Interest-bearing loans and borrowings	287,000	80,000	10,348	377,348	130,263	110,000	10,094	250,357
Company								
Other payables	–	–	–	–	1,874	–	–	1,874
Other liabilities	4,078	–	–	4,078	–	–	–	–
Interest-bearing loans and borrowings	–	–	–	–	110,263	–	–	110,263

(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 (2006: 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.

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 of in interest rate at the reporting date would increase (decrease) profit or loss by the amounts shown below. This analysis assumes that all the other variables, in particular foreign currency rates, remain constant.

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

(c) Interest rate risk (cont'd)

	Increase/ decrease in basis points	Group 2007 Rmb'000 Effect on profit net of tax	Group 2006 Rmb'000 Effect on profit net of tax
Interest expense			
RMB	+10	(105)	(130)
USD	+50	–	(273)
Interest income			
RMB	+10	54	167
SGD	+10	457	1
USD	+50	1	16

(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	
	2007 Rmb'000	2006 Rmb'000	2007 Rmb'000	2006 Rmb'000
SGD	456,635	414	440,313	414
USD	19	3,212	19	3,212
	456,654	3,626	440,332	3,626

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. The sensitivity test is based on past monthly foreign currency rates except for the sensitivity on USD strengthening against the RMB, which has not happened historically.

		Group 2007 Rmb'000 Profit (loss) net of tax	Group 2006 Rmb'000 Profit (loss) net of tax
SGD	-strengthened 1% (2006: 1%)	4,566	4
	-weakened 1% (2006: 1%)	(4,566)	(4)
USD	-weakened 6% (2006: 3%)	1	96

28. 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 2007 and 31 December 2006.

28. Capital management (cont'd)

As disclosed in Note 23, 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 2007 and 2006.

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%. 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	
	2007	2006
	Rmb'000	Rmb'000
Short-term borrowings	287,000	130,263
Long-term borrowings	90,348	120,094
Trade payables	27,685	28,963
Bills payable to bank	5,000	18,000
Other payables	179,501	180,074
Due to related parties	1,682	–
Other liabilities	61,195	17,736
Less: Cash and cash equivalents	(506,810)	(157,571)
Net debt	145,601	337,559
Shareholders equity	1,156,168	838,991*
Less: Statutory reserve fund	(40,514)	(6,745)
Total capital	1,115,654	832,246
Capital and net debt	1,261,255	1,169,805
Gearing ratio	11.5%	28.9%

* FY2006's shareholders equity of Rmb 66,664,000 and net increase in share capital of Rmb 772,327,000 pursuant to the Restructuring Exercise and IPO.

29. Authorisation of financial statements for issue

The financial statements for the year ended 31 December 2007 were authorised for issue in accordance with a resolution of the directors on 25 March 2008.

Statistics of Shareholdings

as at 27 March 2007

ANALYSIS OF SHAREHOLDINGS

Issued and fully paid-up capital	:	S$166,988,900.00
Class of shares	:	Ordinary shares
Voting rights	:	1 vote per share

DISTRIBUTION OF SHAREHOLDINGS AS AT 27 MARCH 2008

Size of Shareholdings	No. of Shareholders	%	No. of Shares	%
1 - 999	6	0.12	1,137	0.00
1,000 - 10,000	3,331	65.51	21,195,100	2.12
10,001 - 1,000,000	1,725	33.92	74,926,000	7.49
1,000,001 and above	23	0.45	903,877,763	90.39
Total:	5,085	100	1,000,000,000	100

LIST OF 20 LARGEST SHAREHOLDERS AS AT 27 MARCH 2008

No.	Name	No. of Shares	%
1	PIONEER TOP HOLDINGS LIMITED	343,376,000	34.34
2	GO POWER INVESTMENTS LIMITED	280,944,000	28.09
3	UOB KAY HIAN PTE LTD	53,603,000	5.36
4	HSBC (SINGAPORE) NOMS PTE LTD	44,937,000	4.49
5	DBS NOMINEES PTE LTD	43,633,610	4.36
6	SUNNY ASIA HOLDINGS LIMITED	32,400,000	3.24
7	AMFRASER SECURITIES PTE. LTD.	24,210,000	2.42
8	RAFFLES NOMINEES PTE LTD	21,693,000	2.17
9	MORGAN STANLEY ASIA (S'PORE)	21,212,000	2.12
10	UNITED OVERSEAS BANK NOMINEES	7,718,000	0.77
11	CITIBANK NOMS S'PORE PTE LTD	5,513,000	0.55
12	OCBC CAPITAL INVESTMENT PRIVATE LIMITED	4,800,000	0.48
13	DB NOMINEES (S) PTE LTD	3,991,000	0.4
14	OCBC SECURITIES PRIVATE LTD	2,312,000	0.23
15	ZHAI CHUNSHENG	2,309,000	0.23
16	PHILLIP SECURITIES PTE LTD	1,791,000	0.18
17	KIM ENG SECURITIES PTE. LTD.	1,743,153	0.17
18	DBS VICKERS SECS (S) PTE LTD	1,575,000	0.16
19	DBSN SERVICES PTE LTD	1,570,000	0.16
20	CIMB-GK SECURITIES PTE. LTD.	1,227,000	0.12
	Total:	900,557,763	90.04

Statistics of Shareholdings

as at 27 March 2007

Percentage of shareholdings in the hands of public

As at 27 March 2008, approximately 37.53% of the Company's shares are held in the hands of public. Accordingly, the Company has complied with Rule 723 of the Listing Manual of the Singapore Exchange Securities Trading Limited.

Substantial shareholders as shown in the Register of Substantial Shareholders as at 27 March 2008

Name	Direct Interest		Deemed interest	
	No. of Shares	%	No. of Shares	%
Pioneer Top Holdings Limited	343,376,000 N1	34.34	–	–
Go Power Investments Limited	280,944,000 N2	28.09	–	–
Liu Xingxu	–	–	343,376,000 N1	34.34
Yan Yunhua	300,000	0.03	280,944,000 N2	28.09

N1 - 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.

N2 - Go Power Investments Limited is a company incorporated in British Virgin Islands. Ms Yan holds 12.92% interest in Go Power Investments Limited, with the remaining 87.08% held on trust by Ms 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.

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Second Annual General Meeting of the Company will be held at M Hotel Singapore (81 Anson Road, Singapore 079908), Anson II room, Level 2, on Tuesday, 29 April 2008 at 11.30 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 2007 and the Auditors Report thereon. (Resolution 1)

2. To declare a final dividend of 1.4 Singapore cents per ordinary share each as recommended by the Directors. (Resolution 2)

3. To approve Directors' Fees of $140,000.00 for the year ended 31 December 2007. (Resolution 3)

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

5. To re-elect Mr Ong Kian Guan, a Director retiring under Article 88 of the Articles of Association of the Company. (Resolution 5)

   Mr Ong Kian Guan will, upon re-election as Director of the Company, remain as the Chairman of the Audit Committee and Lead Independent Director. He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST. He is also a member of the Remuneration Committee.

6. To re-elect Mr Li Shengxiao, a Director retiring under Article 88 of the Articles of Association of the Company. (Resolution 6)

   Mr Li Shengxiao will, upon re-election as Director of the Company, remain as a member of the Audit Committee, He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST. He is also the Chairman of the Nominating Committee and a member of the Remuneration Committee.

7. To re-elect Mr Ong Wei Jin, a Director retiring under Article 88 of the Articles of Association of the Company. (Resolution 7)

   Mr Ong Wei Jin will, upon re-election as Director of the Company, remain as a member of the Audit Committee, He will be considered independent for the purposes of Rule 704(8) of the Listing Manual of the SGX-ST. He is also the Chairman of the Remuneration Committee and a member of the Remuneration Committee.

8. To re-appoint Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration. (Resolution 8)

As Special Business

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

9. (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

Notice of Annual General Meeting

(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, and

(ii) 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 9)

10. 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, 14 April 2008

Explanatory Notes on Special Business to be transacted: -

The ordinary resolution 9 proposed in item 9 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 up to an amount not exceeding in aggregate 50 percent of the total number of issued shares excluding treasury shares of the Company of which the total number of shares and convertible securities issued other than on a pro rata basis to existing shareholders shall not exceed 20 percent of the total number of issued shares excluding treasury shares of the Company at the time the resolution is passed, for such purposes as they consider would be in the interests of the Company. Rule 806(3) of the Listing Manual of SGX-ST currently provides that the total number of issued shares excluding treasury shares of the Company for this purpose shall be the total number of issued shares excluding treasury shares at the time of this resolution is passed (after adjusting for new shares arising from the conversion of convertible securities or share options on issue at the time this resolution is passed and any subsequent bonus issue, consolidation or subdivision of the Company's shares). This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

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.

Closure of Books

NOTICE IS HEREBY GIVEN that the Share Transfer Books and the Register of Members of the Company will be closed from 9 May 2008 at 5.00 p.m. to 12 May 2008, both dates inclusive, for the purpose of determining Members' entitlements to the dividend to be proposed at the Annual General Meeting of the Company to be held on 29 April 2008.

Duly completed transfers in respect of the shares in the Company received up to the close of the business at 5.00 p.m. on 9 May 2008 by the Company's Share Registrar, KCK CorpServe Pte. Ltd., 333 North Bridge Road, #08-00 KH KEA Building, Singapore 188721 will be registered to determine Members' entitlements to such dividend. Members whose Securities Accounts with The Central Depository (Pte) Ltd are credited with shares in the Company as at 5.00 p.m. on 9 May 2008 will be entitled to such proposed dividend.

The dividend, if approved at the Annual General Meeting, will be paid on 22 May 2008.

By Order of the Board

Ms Foo Soon Soo
Mr Jeremy Cheah Soon Ann

Joint Company Secretaries
Singapore, 14 April 2008

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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 M Hotel Singapore (81 Anson Road, Singapore 079908), Anson II room, Level 2, on Tuesday, 29 April 2008 at 11.30 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 Resolutions	To be used on a show of hands		To be used in the event of a poll	
		For*	Against*	For**	Against**
1.	To receive and adopt the Audited Financial Statements of the Company for the financial year ended 31 December 2007 and the Reports of the Directors and Auditors thereon.				
2.	To declare a final dividend of 1.4 Singapore cents per share in respect of the financial year ended 31 December 2007.				
3.	To approve the Directors' fee of S$140,000 for the financial year ended 31 December 2007.				
4.	To re-elect Mr Liu Xingxu, a Director of the Company, pursuant to Article 89 of the Company's Articles of Association.				
5.	To re-elect Mr Ong Kian Guan, a Director of the Company, pursuant to Article 88 of the Company's Articles of Association.				
6.	To re-elect Mr Li Shengxiao, a Director of the Company, pursuant to Article 88 of the Company's Articles of Association.				
7.	To re-elect Mr Ong Wei Jin, a Director of the Company, pursuant to Article 88 of the Company's Articles of Association.				
8.	To re-appoint Ernst & Young as Auditors of the Company and to authorise the Directors to fix their remuneration.				
9.	To authorize Directors to issue shares pursuant to Section 161 of the Companies Act, Chapter 50.				

* *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 ___________ 2008.

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.

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.

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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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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 entered against 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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