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## HISTORY AND CORPORATE STRUCTURE

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### HISTORY

Our Company was incorporated in Singapore as a limited company on 17 July 2006, in anticipation of our listing on the SGX-ST. We operate our business through, Henan XLX Fertiliser, our wholly-owned subsidiary in the PRC. For details of our corporate structure, please refer to the paragraph headed “Corporate structure” in this section.

Our fertiliser business can be traced back to 1970 when Xinxiang Factory was established as a state-owned enterprise in Xinxiang, Henan Province. On 18 August 2003, XLX Chem was established as a private enterprise with a registered capital of RMB25,426,000 to acquire the fertiliser business and relevant assets of Xinxiang Factory as a management buyout led by Mr. Liu. The consideration for the acquisition of the fertiliser business and relevant assets of Xinxiang Factory was RMB31,421,251.52, which was determined with reference to the net assets value of Xinxiang Factory as shown in an asset valuation report dated 10 March 2003 issued by Henan Jianghe Accountancy Firm Co., Ltd. (河南江河會計師事務所有限責任公司). On 14 July 2003, Xinxiang County State-owned Assets Management and Administration Bureau (新鄉縣國有資產經營管理局) confirmed the consideration for such acquisition and allowed XLX Chem to settle the consideration within 8 years upon its establishment. The aforesaid consideration was paid out of the proceeds generated from operations of XLX Chem and was settled in full, partly in cash and partly offset by payment for purchase of vehicles and other equipment for and on behalf of Xinxiang Factory, in 2007. As advised by our PRC legal advisers, Haihua Yongtai Law Firm, the aforesaid consideration was fully settled in 2007 in compliance with the PRC laws and regulations as well as the requirements prescribed by the local government in respect of such management buyout. At the time of the management buyout, XLX Chem had 45 registered shareholders, including Mr. Liu, Ms. Yan and Mr. Li Buwen, our executive Directors; Mr. Ru Zhentao, Mr. Li Yushun, Mr. Wang Nairen and Mr. Zhang Qingjin, our senior management; 24 of our current employees; 10 of XLX Chem’s current employees; and the remaining 4 registered shareholders are the past employees of XLX Chem Group who now do not hold any positions in our Group or XLX Chem Group. The 45 registered Shareholders held the entire equity interest in XLX Chem for their respective own benefits and on trust for approximately 600 beneficiaries, among whom were mainly employees and a small number of customers and suppliers of Xinxiang Factory. As confirmed by the Directors, the reasons for setting up the trust were to simplify the shareholding structure of XLX Chem and to centralise the management and operation of XLX Chem, as well as to comply with the relevant PRC laws and regulations since a PRC domestic company with limited liability shall not have more than 50 shareholders under the PRC Companies Law at that time. As advised by our PRC legal advisers, Haihua Yongtai Law Firm, the said trust arrangement was valid and legally binding on the parties under the PRC laws and regulations.

In July 2006, our Company was incorporated in Singapore, in which 55% of the equity interest was held by Pioneer Top and the remaining 45% of the equity interest was held by Go Power. At that time, the entire share capital of Pioneer Top was held by Mr. Liu for his own benefit and on trust for 7 beneficiaries under Trust Agreement 1, where the entire share capital of Go Power was held by Ms. Yan for her own benefit and on trust for 1,464 beneficiaries under Trust Agreement 2. At the time of incorporation of our Company, the ultimate Shareholders under the Trust Agreement 1 and the Trust Agreement 2 were the same as the ultimate shareholders of XLX Chem. As confirmed by the Directors, the reason for setting up these two trusts was to simplify the shareholding structure of Pioneer Top and Go Power and to centralise the management and operation of the two companies. As advised by our PRC legal advisers, Haihua Yongtai Law Firm, the Trust Agreement 1 and Trust Agreement 2 were valid and legally binding on the parties under the PRC laws and regulations. Please refer to the paragraph headed “Corporate Structure” in this section for details of the Trust Agreement 1 and Trust Agreement 2.

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For the purpose of restructuring of the Group and in preparation of our listing on the SGX-ST, Henan XLX Fertiliser was established in the PRC on 24 July 2006 and was wholly owned by XLX Chem with a registered capital of RMB107,570,000. By way of contributing to the registered capital of Henan XLX Fertiliser, XLX Chem transferred the principal business of production and sales of urea, compound fertiliser and methanol, as well as selected assets and liabilities relating thereto to Henan XLX Fertiliser, but excluding (i) land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, PRC (Production Plant I), and the buildings located thereon and certain vehicles; and (ii) land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Qing Long Road Central, Henan Province, PRC (Production Plant II), and the building located thereon and equipment. The aforesaid business and assets were valued at approximately RMB107,570,000, which was determined with reference to the net assets value of the fertiliser business with the selected assets and liabilities relating thereto as shown in an independent valuation report dated 21 July 2006 issued by Henan Yucai Assets Evaluation Co., Ltd. (河南豫財資產評估有限公司).

Our Directors considered that as Henan XLX Fertiliser was newly established in July 2006 and that the acquisition of the land use rights relating to the Production Plant I and Production Plant II would bring heavy financial burden on to our Group, therefore it would be better to acquire the aforesaid land use rights upon our Group had sufficient funds. In this regard, we entered into a lease agreement dated 1 August 2006 relating to the lease of the land use rights, buildings and vehicles of Production Plant I (the “**Lease I**”) with a term commencing on 1 August 2006, and a lease agreement dated 15 September 2006 relating to the land use rights, buildings and vehicles of Production Plant II (the “**Lease II**”) with a term commencing on 15 September 2006, with XLX Chem. Both Lease I and Lease II were supplemented by an agreement dated 1 January 2007 respectively. The annual rental payments under Lease I and Lease II were approximately RMB2.2 million and RMB41.5 million respectively, which were determined with reference to the fair market price of these assets as at 30 November 2006 as shown in an independent valuation report dated 25 December 2006 issued by Henan Guanghua Accountancy Firm Co., Ltd. (河南光華會計師事務所有限公司). Both Lease I and Lease II were terminated on 10 October 2007. For the year ended 31 December 2006 and 2007, the aggregate annual rental payments under both Lease I and Lease II was approximately RMB13.2 million and RMB34.4 million respectively.

According to Lease I and Lease II, Henan XLX Fertiliser was granted an option to acquire the land use rights, the buildings and vehicles of Production Plant I and the land use rights, buildings and equipment of Production Plant II. The option was exercised in August 2007 by entering of an asset acquisition agreement with XLX Chem on 14 August 2007 for purchasing the land use rights, buildings, vehicles and equipment for Production Plant I and Production Plant II from XLX Chem at a total consideration of approximately RMB210 million. The aforesaid consideration was determined with reference to the net asset value of these assets as at 31 December 2006 as shown in an independent valuation report dated 25 January 2007 issued by Henan Guanghua Accountancy Firm Co., Ltd.. The acquisition was completed in October 2007, and the consideration was settled in cash from the net proceeds of the initial public offering of our Company in Singapore in 2007. Pursuant to the aforesaid asset acquisition agreement, XLX Chem agreed to provide a loan of a maximum amount equivalent to the total amount of the consideration, by way of entrusted loan, at the option of Henan XLX Fertiliser. Accordingly, Henan XLX Fertiliser had entered into two entrusted loan agreements dated 8 January 2008 and 21 January 2008 respectively with XLX Chem and Industrial and Commercial Bank of China Limited (Henan Branch), by which XLX Chem provided the entrusted loans in a total amount of RMB90 million to Henan XLX Fertiliser through Industrial and Commercial Bank of China Limited (Henan Branch) for financing the construction of Production Plant III. Our Directors confirm that such entrusted

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loan was entered into among the parties on an arm's length basis, which has been granted with a favourable interest rate in domestic banks and is no less favourable than the normal commercial terms available to our Group. Our Directors confirm that the principal loan, together with the interest due to XLX Chem, under the two entrusted loan agreements, was fully repaid and settled in May 2009.

As part of the restructuring, our Company acquired from XLX Chem, in accordance with a share transfer agreement dated 24 July 2006, the entire equity interest in Henan XLX Fertiliser for the consideration of US\$13.5 million which was fully paid in cash at the end of December 2006. The consideration for transfer of the entire equity interest in Henan XLX Fertiliser was determined based on an independent valuation report dated 21 July 2006 issued by Henan Yucai Assets Evaluation Co., Ltd. Pursuant to an approval dated 28 July 2006 issued by Commerce Department of Henan Province, Henan XLX Fertiliser was converted into a wholly foreign-owned enterprise owned by our Company and its registered capital was then converted to US\$13.5 million, and its business scope included production and sales of urea, compound fertiliser, methanol, liquid ammonia and ammonia solution, and conducting businesses relating to the import and export of goods. At the time of the transfer of Henan XLX Fertiliser from XLX Chem to our Company, the ultimate beneficial owners of our Company were identical to those of XLX Chem.

Prior to our listing on the SGX-ST, we entered into a convertible loan agreement on 16 October 2006 (the "**Convertible Loan Agreement**") with certain investors who were independent third parties at the material time, by which the investors agreed to grant our Company a loan facility of an aggregate amount of US\$7.12 million in consideration for a right to convert the full sum of such loan into fully paid ordinary shares of the Company. The Convertible Loan Agreement was supplemented by the deed of ratification and accession dated 12 December 2006. On 11 May 2007, the investors exercised their conversion rights in full and 175,680,000 fully paid Shares (representing approximately 21.96% of the then total issued Shares of the Company) were allotted and issued to the investors or their respective nominees. The investors included Alamo Assets Limited, Asean China Investment Fund L.P., Aventures 1 Pte. Ltd., Chua Beng Huat, OCBC Capital Investment Private Limited, Portchester Asset Management Limited, SkyVen Growth Capital Fund Pte. Ltd., Sunny Asia Holdings Limited and Tan Keh Poo. As at the Latest Practicable Date, none of the investors or their respective nominees held more than 5% or more of the total issued Shares in the Company. Our Directors confirm that the investors are independent third parties.

On 20 June 2007, our Shares were listed on the SGX-ST. We allotted and issued a total of 200,000,000 new Shares (representing 20% of the then total issued Shares of the Company) to members of the public at a price of S\$0.77 per Share and received net proceeds of approximately S\$141.5 million from the initial public offering in Singapore. We used part of the net proceeds to acquire the land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Xiaoji Town, Henan Province, PRC, and the buildings located thereon, and land use rights relating to the land at Xinxiang Economic and Technology Development Zone, Qing Long Road Central, Henan Province, PRC, and certain vehicles and equipment from XLX Chem and to construct new power generating systems for use in our production plants.

Our PRC legal advisers, Haihua Yongtai Law Firm, confirmed that with regard to the Notice on Relevant Issues Concerning Foreign Exchange Administration for the PRC Residents to Engage in Financing and Inbound Investment through Overseas Special Purposes Vehicles (《國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知》), Mr. Liu and Ms. Yan, as the PRC residents, have completed their registration with the local SAFE in respect of (a) their direct or indirect ownership of our Shares, through Pioneer Top and Go

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Power respectively, and (b) their ownership of our Shares on behalf of a total of 1,470 beneficial owners, who are also the PRC residents, under Trust Agreement 1 and Trust Agreement 2 respectively.

Our PRC legal advisers, Haihua Yongtai Law Firm, further confirmed that our Group is not subject to the restrictions and supervision under the Provisions Regarding Mergers and Acquisitions of Domestic Enterprises by Foreign Investors (《關於外國投資者併購境內企業的規定》) promulgated on 8 August 2006 (the “**M&A Regulations**”) in respect to our listing on the SGX-ST and the Stock Exchange, for the reason that the acquisition of equity interests in Henan XLX Fertiliser by our Company has been completed before the implementation of the M&A Regulations.

Our PRC legal advisers, Haihua Yongtai Law Firm, further confirmed that our production and sales of urea, compound fertiliser, methanol, liquid ammonia and ammonia do not fall under the “restricted” or “prohibited” industry under the Catalogue for Guidance for Foreign Investment Industries (《外商投資產業指導目錄》).

### BUSINESS MILESTONES

The following are the key milestones in the development of our business:

- July 2006 — the Company was incorporated in Singapore under the Singapore Companies Act as a private limited company under the name of “Xin Lian Xin Holdings Pte. Ltd”.
- July 2006 — Henan XLX Fertiliser was established and obtained approval from Commerce Department of Henan Province to operate as a wholly foreign-owned enterprise.
- September 2006 — our Production Plant II started its trial production.
- January 2007 — our aggregate production capacity increased to approximately 680,000 tons of urea, approximately 300,000 tons of compound fertiliser and approximately 100,000 tons of methanol, per annum.
- February 2007 — the name of our Company was changed to “China XLX Fertiliser Pte. Ltd.”.
- May 2007 — the name of our Company was changed to “China XLX Fertiliser Ltd.”.
- June 2007 — our Shares were listed on the SGX-ST.
- August 2007 — we acquired the land use rights, buildings, vehicles and equipment for Production Plant I and Production Plant II from XLX Chem at a total consideration of approximately RMB210 million. The consideration of such acquisition was determined with reference to the net asset value of these assets as at 31 December 2006 as shown in an independent valuation report dated 25 January 2007 issued by Henan Guanghua Accountancy Firm Co., Ltd.. The consideration was settled in cash from the net proceeds of the initial public offering of our Company in Singapore in 2007. Such acquisition was completed in October 2007.

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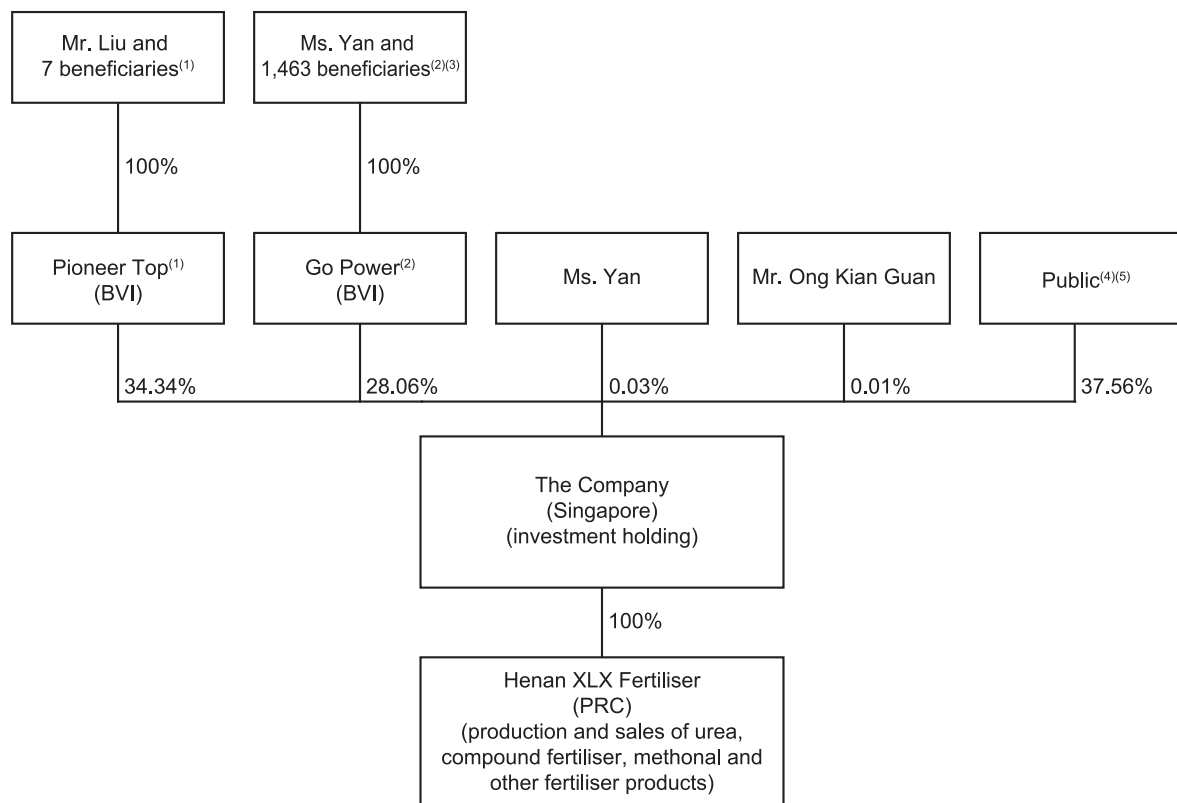
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- October 2007 — we were shortlisted as one of the “Most Transparent Company Award” by Securities Investors Association (Singapore).
- November 2007 — we were awarded “Henan 100 Most Important Industrial Enterprises” by the Henan Provincial Government.
- February 2008 — our new power generating systems for production plants were completed.
- April 2008 — we commenced construction of Production Plant III.
- February 2009 — we commenced construction of a new compound fertiliser production line in Production Plant II and estimated that our production capacity of compound fertiliser to increase by 300,000 tons per annum upon completion of the new production line.
- April 2009 — the construction of Production Plant III was completed and the trial operation commenced. Upon completion of the trial production in July 2009, we have applied for the examination and acceptance approval in accordance with the PRC laws and regulations and expect such approval will be granted by the end of 2009. Our aggregate production capacity will increase to approximately 1.25 million tons of urea, approximately 600,000 tons of compound fertiliser and approximately 200,000 tons of methanol, per annum.

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## CORPORATE STRUCTURE

The chart below illustrates the corporate and shareholding structure of our Group immediately following the Listing:



*Notes:*

- (1) Pioneer Top is an investment holding company incorporated in the BVI, which holds approximately 34.34% of the total issued Shares of the Company. According to Trust Agreement 1, Mr. Liu beneficially owns approximately 42% of the equity interest in Pioneer Top and holds approximately 58% of the equity interest in Pioneer Top on trust for 7 beneficiaries, including approximately 16% for Mr. Li Buwen, our executive Director; approximately, 7% for Mr. Li Yushun, 7% for Mr. Ru Zhengtao, 7% for Mr. Wang Nairen and 7% for Mr. Zhang Qingjin, our senior management; and approximately, 7% for Mr. Zhu Xingye and 7% for Mr. Shang Dewei, our employees.

Furthermore, pursuant to Trust Agreement 1, the beneficiaries shall have the rights to any dividends declared by Pioneer Top in proportion to his/her beneficial interest. Each of the beneficiaries shall have the right to sell any part of his/her beneficial interest in Pioneer Top to the other existing beneficiaries, and before he/she can offer such beneficial interest to any third party which the other beneficiaries shall have the first right of refusal to acquire such beneficial interest. Mr. Liu is irrevocably granted the absolute discretion to exercise the voting rights and day-to-day management rights in Pioneer Top. The term of the Trust Agreement 1 is 10 years with effect from 26 July 2006.

- (2) Go Power is an investment holding company incorporated in the BVI, which holds approximately 28.06% of the total issued share capital of the Company. According to the Trust Agreement 2, Ms. Yan beneficially owned approximately 12.92% of the equity interest in Go Power and held approximately 87.08% of the equity interest on trust for a total of 1,464 beneficiaries, comprising of current and past employees, as well as past and present customers or suppliers, of our Group. By the Go Power Trust Confirmation, it is the confirmed that as at 16 June 2009, Ms. Yan owned approximately 12.73% of the equity interest in Go Power and held approximately 87.27% of the equity interest in Go Power on trust for 1,464 beneficiaries under the Trust Agreement 2.



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The terms of the Trust Agreement 2, which are amended and confirmed under the Go Power Trust Confirmation, are:

- (a) The beneficiaries are entitled to any dividend declared by Go Power in proportion to their respective beneficial interest in Go Power;
  - (b) Ms. Yan is irrevocably granted the absolute discretion to exercise the voting rights and day-to-day management rights in Go Power;
  - (c) The beneficiaries may transfer or disposal of their beneficial interests in the Go Power upon such terms and conditions as Ms. Yan may consider fit and in compliance with the relevant laws;
  - (d) Ms. Yan retains absolute control of all the trust assets and proceeds from the disposal of such assets on trust for the beneficiaries; and
  - (e) The term of the Trust Agreement 2 is 10 years with effect from 26 July 2006.
- (3) In April 2009, the 7 corporate beneficiaries under Trust Agreement 2, being our past and present customers or suppliers, have transferred their respective equity interest in Go Power to 7 individuals respectively. The aggregate percentage of shareholding being transferred was approximately 1.44% of the entire equity interest in Go Power. In August 2009, with a beneficiary's instruction pursuant to the Trust Agreement 2, Ms. Yan in her capacity as the trustee has sold 320,000 Shares, representing approximately 0.03% of the total issued Shares of our Company, on the market, and returned the net proceeds from the sale of shares to that beneficiary.

As at the Latest Practicable Date, the 1,463 beneficiaries under Trust Agreement 2 were not our Directors or senior management, and have not been and will not be involved in the decision making of our Group's management and operation. Among these 1,463 beneficiaries, over 1,000 of them were independent of each others, while the remaining beneficiaries belonged to different family groups where no single family group held more than 0.6% of the total issued Shares of our Company.

As at the Latest Practicable Date, Ms. Yan beneficially owned approximately 12.74% of the equity interest in Go Power and held approximately 87.26% of the equity interest in Go Power on trust for 1,463 beneficiaries under the Trust Agreement 2.

- (4) As at 14 October 2009, the aggregate percentage of shareholding held by the investors or their respective nominees under the Convertible Loan Agreement in our Company was approximately 10.55%. Details of their respective shareholding in our Company are set out in the table below:

<u>Name of investors</u>	<b>No. of Shares held as at 14 October 2009</b>	<b>Approximately the issued Shares in our Company as at 14 October 2009</b>
Exquisite Essence Limited . . . . .	18,193,000	1.82%
Kenmoore Mezzanine Investments Limited . . . . .	30,000,000	3.00%
Seacrest Pacific Ltd. . . . .	24,160,000	2.42%
Sunny Asia Holdings Limited . . . . .	33,100,000	3.31%

Mr. Chua Beng Huat was one of the investors under the Convertible Loan Agreement, and for the purpose of the Convertible Loan Agreement, was investing in our Company on behalf of Exquisite Essence Limited, Kenmoore Mezzanine Investments Limited and Seacrest Pacific Ltd. Our Directors confirm that the abovenamed investors are independent third parties of our Group and they are also independent of each other. As at the Latest Practicable Date, apart from the abovementioned investors, the other investors, namely Alamo Assets Limited, Asean China Investment Fund L.P., Aventures 1 Pte Ltd, Portchester Asset Management Limited, SkyVen Growth Capital Fund Pte. Ltd. and Tan Keh Poo did not hold any Shares.

- (5) As at the Latest Practicable Date and immediately upon Listing, the number of Shares held by the public is 375,600,000 Shares which is approximately 37.56% of the total issued Shares of our Company.