九天化工集团有限公司 JIUTIAN CHEMICAL GROUP LIMITED

ANNUAL REPORT 2008 年度报告

九天化工集团有限公司
JIUTIAN CHEMICAL GROUP LIMITED

Annual Report 2008

Our mission statement

To be one of the world's largest DMF producers & a key player in china's coal-based fine chemical industry

Contents

Moving closer to self-sufficiency in methanol and fuller integration

Our new Anyang Jiulong plant when completed will make us more self sufficient in methanol supply and help the Group reinforce its mission towards a key player in coal-based fine chemical industry.

Corporate profile

A SPECIALIST IN FINE CHEMICAL INDUSTRY

Jiutian Chemical Group Limited ("Jiutian" or the "Group"), incorporated in Singapore on 30 November 2004, was listed on the Singapore Exchange on 4 May 2007. We are engaged in the manufacture and production of methanol, dimethylformamide ("DMF") and methylamine. We are also involved in the processing and sale of consumable carbon dioxide and oxygen. The business is divided into three main business divisions:

1) Methanol division producing methanol

2) DMF division producing DMF as its main product and methylamine as our secondary product

3) Gas division producing consumable carbon dioxide and oxygen

We are located in Henan, China's most populous province with a population of 100 million, which together with surrounding provinces have a combined population of 450 million. Whilst economic development and industrialization in China began on the eastern and southern coast, this process has begun to spread rapidly inland, including to Henan and its surrounding regions, where cost of labour, land and raw materials are significantly lower. As a result, industrialization and urbanization is occurring at a rapid pace in these regions, and the consequent establishment of factories producing wide range of consumer products is driving the demand for chemicals such as DMF, methylamine and methanol. Being the only significant DMF producer in Henan province and within 500km from the plant, we are well positioned to take advantage of this trend.

In addition, our location in China's Coal Belt allow us to enjoy a cost advantage over other PRC DMF producers due to secure and low cost access to the coal-based raw materials that are used in the manufacture of our products. Our production efficiency and cost-effective supply chain management strategy, which include direct piping-in of raw materials from our main supplier, has provided us a relative cost advantage against our competitors.

Geographical Advantage - Strategic Location in Henan, China's most populous province and heart of the Coal Belt

----------- Railways and Roads

Henan Province is also on the Beijing-Guangzhou railway and close to Zhengzhou, which has one of Asia's largest railway stations and network. There are plans for Zhengzhou to be developed into a logistics central station for cargo transportation. This will further reduce the transportation costs of our products.

Our customer base in China consists of customers in Henan, the surrounding provinces adjacent to Henan, namely Hebei, Shaanxi, Shanxi, Hubei, Shandong, Jiangsu and Anhui, and provinces in the Yangtze Delta Region, namely, Jiangsu and Zhejiang. Some of our customers are manufacturers of downstream products that use methanol, methylamine and DMF, while others, especially those located further away in the Yangtze Delta Region, are trading intermediaries that distribute these chemicals to customers that use these chemicals in their manufacturing processes. With our new 120,000 tonne DMF/methylamine facility completed in September 2007 and commissioned in 4th quarter, 2007, we have emerged as one of the world's largest manufacturers of DMF and part of our production capacity will be channelled to export our products overseas, where DMF produced via natural gas have become less cost-competitive compared to DMF produced with coalbased raw materials.

To further marketing reach in the Yangtze Delta region, our completion of the storage and distribution facility in Changzhou City, Jiangsu Province which can hold up to 40,000 metric tonnes of DMF annually facilitated by a direct link to the national rail network via a dedicated railway line to the Group's production facilities enable us to pass on our transport and distribution cost savings to our customers.

The construction of our 250,000 tonne methanol production facility expected to complete in the latter part of 2009 is yet another strategic move by the Group. The investment will not only strengthen the integration of our operations, as it will ensure a steady and cost effective feedstock supply to our DMF/methylamine operations but also give the Group the opportunity to benefit from the growing demand of methanol which has seen prices increased steeply in 2007 and 2008.

Our products include dimethylformamide ("DMF"), methylamine, methanol and consumable carbon dioxide.

DIMETHYLFORMAMIDE (DMF)

DMF, which is our main product, uses methylamine (another of the Group's secondary products) as a feedstock. DMF has a diversified range of applications. It is in turn used as a feedstock in the production of Polyurethane (PU), a key component in the manufacture of consumer goods such as leather products and shoes, as well as feedstock in the production for pharmaceutical and agro chemical products. DMF is also a universal industrial solvent that can be used as an absorbing agent mainly in electronics, acrylic fibre and pharmaceutical products.

DMF Production Processes

We have a fully integrated production process in our first plant of 30,000 tonne DMF plant where methanol produced is sold independently as well as used as feedstock in methylamine production and where methylamine manufactured is sold independently as well as used as feedstock in DMF production. The new 250,000 tonne methanol plant when completed in 2009 will also be key to achieving a fully integrated production process for our second plant of 120,000 tonne DMF plant. This flow-through production process provides operational flexibility, as it allows management to change product mix to suit market conditions. We consistently optimise our cost structure through various measures including minimising transportation costs and ensuring regular supply of our high quality products to the customers.

With global downstream manufacturing facilities shifting increasingly to China, as well as a growing domestic consumption economy, demand for DMF in China is expected to continue to grow steadily over the next few years. Furthermore, Chinese producers are increasingly exporting and this would no doubt be a source of growth for China's DMF manufacturers in the years to come.

Polyurethane - DMF as a Key Feedstock

One of the most important applications of DMF is its use as a feedstock in the production of polyurethane, an important chemical used in a wide range of consumer related applications. Polyurethane products can be found everywhere and is one of the most versatile materials today that offers the elasticity of rubber combined with the toughness and durability of metal. Polyurethane absorbs weight, improves durability, enhances insulation in the products and provides added comfort and resiliency.

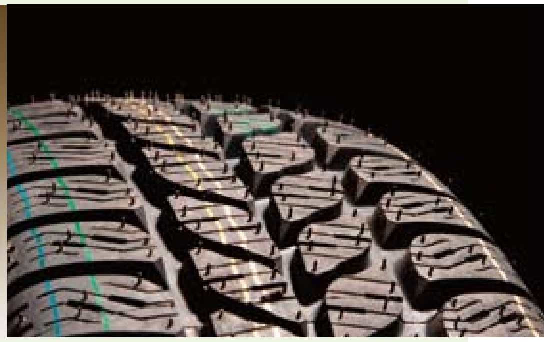
Key uses of Polyurethane include:

Consumer goods

(Insulation & Cushioning)

Polyurethane is often used for its insulation and cushioning capabilities. Over three quarters of the global consumption of polyurethane products is in the form of foams with flexible and rigid types being roughly equal in market size. Flexible foams are used in the upholstery of commercial and domestic furniture as well as in automobiles, while rigid foams are found on the insides of metal and plastic walls of most refrigerators and freezers; or behind paper, metals and other surface materials in the case of thermal insulation panels in the construction sector.





Shoe Sole

DMF is commonly used in manufacturing extremely versatile polyurethane elastomers. With the properties of high levels of elasticity, tensile strength, elongation and shock absorbing abilities, it can be used in manufacturing shoe soles. According to government statistics, China currently produces about 8 billion pairs of shoes a year, translating into 6 pairs of shoes for every person in China, or more than a pair for every person globally.

PU Leather

DMF is also widely used in the manufacture of polyurethane leather, or synthetic leather. Due to its lightweight, classylooking and comfortable properties, PU leather is easily maintained, water-resistant, abrasion-resistant and can be drycleaned. Synthetic leather is a lower cost alternative to real leather that can be used in manufacturing sofas, handbags, shoes and belts.

DMF as Universal Solvents

Petrochemical

DMF can be used as an industrial solvent to produce petrochemical products, including butadiene. When combined with other chemicals, end products include synthetic rubber, nylon and automobile tyres. With the surging consumer and industrial demand for petrochemical products in China, large-scale increases in production capacity of petrochemical products is expected in the coming decade.

Acrylic Fibre/Natural Leather

DMF is also used as an industrial solvent to produce acrylic fibre. Driven by the global fashion market, acrylic fibre has recently become a lower cost alternative to cashmere due to its similar soft fabric feeling. It is extensively used in knitwear, carpet, toys, blanket and apparel industries. DMF is also used to remove hair from natural leather.

Pharmaceutical

The global pharmaceutical market is projected to grow, driven by the ageing global population. 10% of China's population, i.e., 130 million people, will be above 60 years old and this number is expected to rise more than 31% by the year 2050. In China, DMF is used as an industrial solvent to produce antibiotics and other type of consumable drugs - new uses of DMF as an ingredient of pharmaceutical products are being developed all the time.

Electronics

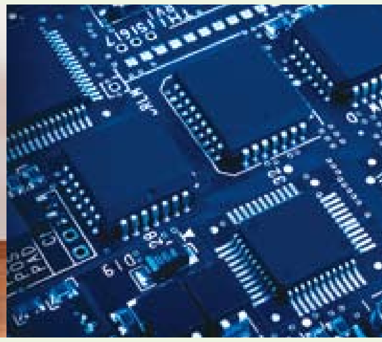
DMF is also used to dissolve the catalyst in the epoxylaminated printed circuit boards in the electronics industry. Driven by the influx of investment in the electronics sector, along with the rapid development of the communications industry, China is amongst the world's largest producer of PCB boards, thus demand for DMF in China is expected to remain significant as well.

DMF As Other Chemical Feedstock

Agrochemical

DMF and methylamines, used as chemical feedstock to produce agrochemicals such as fertilisers, soil conditioners, pesticides and antibiotics, are critical to raising crops for food. The PRC Government has



pledged to improve the living standards of farmers by increasing local agricultural productivity and new investments in the countryside. The use of agrochemicals in Henan Province, which has one of China's largest agricultural sectors, is expected to increase in the coming decades due to this initiative.

METHANOL

Methanol is a popular organic intermediate in the production of medicine and pharmaceutical products, fuel, pesticides, fertilisers, dyestuffs, coatings, plastics, synthetic rubbers and many other varieties of chemicals. With higher crude oil prices, methanol is also fast becoming a growing source of alternative fuel. When our 250,000 tonne methanol production facility is ready, sometime in the latter part of 2009, the Group will have a total capacity of 315,000 tonnes of methanol of which 215,000 tonnes will be used as feedstock for producing DMF/methylamine and the balance 100,000 tonnes will be sold externally.

METHYLAMINE

Methylamine is an important chemical feedstock in the organic chemical industry. It is widely used in various areas, such as agricultural chemicals, medicine, fuel, synthetic resin, leather making, production of the solvent used for chemical fibres, activating agents and photography. Methylamine is produced by the reaction of methanol with ammonia. Most of the methylamine produced by the Group is used as a feedstock for the production of DMF.

CONSUMABLE CARBON DIOXIDE

Carbon dioxide can be broadly classified as industrial carbon dioxide and consumable carbon dioxide. The Group's focus will be the higher margin consumable carbon dioxide due to the increasing demand for the product for use in aerated beverages, tobacco and preservation of vegetables.

Corporate milestones

2008

August 2008: Group announced Yong Mei Group to take a 32.15% equity interests in the new 250,000 tonne methanol plant under construction in Anyang Jiulong Chemical Co.,Ltd by injecting RMB 200 million into Anyang Jiulong.

May 2008: S$36.9 million raised in third share placement exercise.

January 2008: Group announced increase in equity interests of Anyang Jiulong Chemical Co., Ltd from 51% to 75.5%.

2007

December 2007: Completion of storage and distribution facility in Changzhou City, Jiangsu Province.

September 2007: Completion of 120,000 tonne DMF production capacity.

March 2007: Group announced investment of 51% equity interests in Anyang Jiulong Chemical Co., Ltd to construct a 250,000 tonne methanol production facility and high pressure steam and power generation facilities.

February 2007: Establishment of R&D centre within the Production and Technical Department to focus on progress improvement and research on other coal-based fine chemicals.

February 2007: S$47.0 million raised in second share placement exercise.

2006

November 2006: $18.9 million raised in first share placement exercise.

October 2006: Group announced expansion of capacity of new DMF plant under construction from 60,000 tonnes to 120,000 tonnes.

May 2006: Our Group was admitted to SGX-ST and trading began.

May 2006: 30,000 tonne consumable carbon dioxide production facility began production.

January 2006: Construction of a new 60,000 tonne DMF facility began.

2005

September 2005: Construction of a new 30,000 tonne consumable carbon dioxide production facility began.

July 2005: Obtained a certification of registration issued by the National Quality Assurance Limited, a UK company, for ISO 9001:2000 certification in our quality management system in our production, sale and service of industrial methanol, DMF and methylamine.

May 2005: Completion of an upgrading programme which increased methylamine/DMF production capacity from 20,000 tonnes to 30,000 tonnes.

2004

December 2004: Jiutian Chemical Group Limited acquired Anyang Jiutian.

December 2004: Anyang Jiutian acquired methanol and gas divisions of Anhua.

November 2004: Jiutian Chemical Group Limited incorporated in Singapore.

Methanol output increased to 63,000 tonnes.

2003

Methylamine/DMF facility completed end of 2003; Improvement in technology allowed the completion of 20,000 tonne facility, twice the original planned capacity.

Continuous improvement increased output in methanol business from 30,000 tonnes to 56,000 tonnes.

2001

Formation of Anyang Jiutian Fine Chemical Co. Ltd. Construction of methylamine/DMF plant began. Methanol and gas businesses certified ISO 9001:2000.

1997

Improvements made to the carbon monoxide converter catalyst which reduced the consumption of high pressured steam resulting in significant cost savings.

1996

Methanol workshop successfully produced a “NC501-1” type of low temperature methanol synthesis catalyst.

1994

Led by our former Executive Chairman, Mr Wang Xianjin, our methanol business began as a workshop of Anyang Fertiliser Factory (later known as Anhua).

The gas workshop within Anyang Fertiliser Factory commenced business as a workshop.

Chairman's Statement

Dear Shareholders,

FY 2008 was a very difficult year for the Group. Just as we commissioned our state-of-the-art 120,000 tons DMF plant in late FY2007 and placed Jiutian Group amongst the top three DMF producers in China, we had to batter with external factors engulfing the industry and our operations resulting in the new plant remaining largely mothballed which affected the financial results of the Group in FY 2008. The Group reported a net loss attributable to shareholders of RMB 50.8 million for the financial year ended 2008 against a profit of RMB 61.3 million in FY 2007.

In FY 2008, DMF sales and prices were initially suppressed by the unexpected snow storm that hit provinces in the south where many of DMF users are located. Moving into the second and third quarter, the global spike in crude oil prices drove up global inflation of goods and services and caused many industries to scurry for alternative fuel to mitigate the rise in energy costs. During the period, there was a significant spike in price of coal and methanol prices, driven by economic growth, high energy costs and increased use of methanol as an alternative fuel. Methanol is a key feedstock in the production of DMF and methylamine which the Group at present is not self-sufficient and had to purchase from the market. Whilst prices of DMF and methylamine increased during this period, it could not compensate for the disproportionate increase in price of methanol, making production of DMF and methylamine untenable using external methanol. As the Group moved into the fourth quarter, trading conditions weakened abruptly as global economies were interrupted by the global financial crisis. The global economic landscape deteriorated rapidly and orders dwindled. Prices of DMF, methylamine and methanol slumped.

All these factors marked by high price volatility and unstable supply of key feedstock, especially that of methanol, adversely affected Jiutian Group's operations during the year. As a result, the Group's second DMF plant of 120,000 tons capacity in Anyang Jiuyang Chemical Co.,Ltd ("Anyang Jiuyang") remain shut for most part of the financial year, operating at 3% of its annual capacity. The Group's first DMF plant of 30,000 tons capacity in Anyang Jiutian Fine Chemical Co.,Ltd ("Anyang Jiutian") also did not operate at full capacity, achieving 91% of its annual capacity. The significant under-utilization of Anyang Jiuyang plant resulted in the subsidiary to incur an operating loss of RMB 40.4 million including RMB 25.0 million in annual depreciation. In addition, against a challenging outlook from the global economic slowdown that looks set to continue well into 2009 and therefore an expected low plant utilization, the Group decided to provide for impairment of the Anyang Jiuyang plant of RMB 27.0 million. Against a steep fall in the price of methanol and to a lesser extent of DMF and methylamine at the year's close, the Group had to further provide an impairment in the value of inventories totalling RMB 16.1 million, comprising RMB 13.2 million for methanol and RMB 2.9 million for DMF and methylamine.

Moving towards self-sufficiency and fuller integration

The volatility of price and supply of methanol faced in 2008 further reinforced the need for the Group to be more self-sufficient in methanol. Our 250,000 tons capacity methanol plant under construction in Anyang Jiulong Chemical Co.,Ltd ("Anyang Jiulong") will help address two strategic objectives. Firstly it will provide a long term stable supply and cost-efficient raw material for the production of DMF and methylamine and secondly, it will help the Group to achieve its vision to diversify beyond DMF and methylamine products. This project, which originally planned to be funded one-third by bank financing, encountered difficulty as banks began to

Chairman's Statement

tighten credit in 2008 resulting in temporary delay in the progress of the construction of the plant. As announced on 15 August 2008, the financing gap has been filled by Yong Mei Group taking a 32.15% strategic stake in Anyang Jiulong by injecting RMB 200 million into the subsidiary. Yong Mei Group is a state-owned coal-based conglomerate based in Henan Province, PRC and rank high amongst the top coal producers in China. Our strategic alliance with Yong Mei Group not only helped to breach the financing gap for our methanol project but placed Jiutian in a vantage position by ensuring a stable and cost-efficient supply of coal in the production of methanol and other intangible benefits including area of technology transfer and access to Yong Mei's distribution channels and international market presence. Unfortunately, the required governmental approvals were delayed which further delayed the project now scheduled to complete by the fourth quarter of 2009.

Challenging times ahead

The global economic downturn has not spared China which is dependent on exports to sustain its high economic growth. In response to the fast slowing economic landscape and dwindling exports, the PRC government has announced its "protect 8" target of keeping GDP growth at 8% for 2009 and unveiled a US$586 billion package aimed primarily at stimulating domestic demand. Nonetheless, we expect that these measures will not provide an immediate boost to demand and that 2009 will continue to be a difficult year for the Group. Notwithstanding, the Group will focus its efforts on completing Anyang Jiulong's new methanol plant and taking the appropriate course of actions to minimize the impact of the slowdown.

Dividends

In view of the loss incurred for the year and to conserve cash in this difficult economic climate, the directors do not recommend any dividend for approval at the forthcoming Annual General Meeting.

Acknowledgements

Earlier on 25 February 2009, we announced that Mr Wang Xianjin, our former Chairman and Chief Executive Officer resigned from the Group due to his deteriorating heart conditions. Mr Wang was the most senior of the founding managers of the Company and was instrumental in guiding the Board and managing the Group to become a significant player in the DMF industry in China. On behalf of the Board, I would like to thank Mr Wang Xianjin for his dedication and leadership in bringing Jiutian Group to its present significance and wishing him an early recovery and improved health.

We also like to thank our employees whose energy, sacrifices and dedication helped us through this challenging period. Our gratitude is also extended to our business associates, clients, fellow directors and shareholders who have supported us and maintained their confidence in the Group's future. We look forward to your continued support as we strive to build a stronger foundation and broaden our opportunities.

Mr Sun Zhiqiang
Acting Chairman

Review of Operations

Operations Overview

The Group's business is divided into three main business divisions:

(1) The methanol producing division, with most of the methanol used as feedstock to produce methylamine and dimethylformamide (DMF);

(2) The DMF producing division, with DMF as the main product and methylamine as the secondary product;

(3) The gas division, producing consumable carbon dioxide and oxygen.

Division	Plant Capacity as at 31 December 2008	Anticipated Plant Capacity as at 31 December 2009
Methanol	65,000 tonnes	315,000 tonnes
DMF	150,000 tonnes of DMF 150,000 tonnes of methylamine	150,000 tonnes of DMF 150,000 tonnes of methylamine
Gas	30,000 tonnes of carbon dioxide 800 km3 of oxygen	30,000 tonnes of carbon dioxide 800 km3 of oxygen

Reliable and Stable Supply of Raw Material

The Group has a 20-years raw material supply agreement with our key supplier, Anhua, which helps ensure long-term reliability and stability of our main sources of raw material supply. Price increments are capped for three years ending 2008 and 2010 within the agreements signed by Anyang Jiutian Fine Chemical Co., Ltd and Anyang Jiuyang Chemical Co., Ltd respectively. The Group is not charged for transportation costs for the new raw material supplied due to close proximity with Anhua.

Review of Operations

High Level of Quality and Safety Assurance

Rigorous in-process testing division ensures products meet internal quality standards, international standards and the quality management system certified by ISO 9001:2000.

Strong Manufacturing Operations

Flow-through production process provides operational flexibility. For example, methanol is used as feedstock for methylamine, most of which is in turn feedstock for DMF. Our highly trained workforce equipped with proven ability to upgrade, expand and fine-tune production processes enables an actual output higher than original production capacity.

Research & Development

An R&D centre has been established within the Production & Technical Department to centralise and formalise research efforts. Dedicated, highly qualified professionals in this R&D centre will explore various ways to improve existing technological processes to increase yield and conduct research on other coal-based fine chemical opportunities for the Group.

Marketing, Sales & Distribution Capabilities

The Group's sales operation is supported by an experienced and highly-skilled sales and marketing team which plays an important role in cultivating long term relationships with customers through their knowledge and excellent aftersales service. The Group will continue its efforts to extend its customer reach in China including stepping up efforts to sell to the coastal regions with our new capacities.

We have established a storage and distribution facility in Changzhou City, Jiangsu Province, to further our marketing reach in the Yangtze Delta region. Through direct link to the national rail network via a dedicated railway line to the Group's production facilities, products will be transported to this satellite facility which acts as a tank farm for the storage and distribution of products to direct enduser customers in the Yangtze Delta region. The establishment of this storage facility will enable the Group to sell its products at the optimal price and time, and also reduce transport and distribution costs. The Group's direct presence in Changzhou will also provide a staging post for export opportunities that the Group can better take advantage with added production capacity.

The Year in Review

FY2008 was a very difficult year for the Group with the Group registering its first loss since it was listed on the Singapore Stock Exchange in 2006. Both domestic and global events made 2008 a tumultuous year, as a result the Group was unable to maximize on its investments in its new 120,000 tons DMF plant commissioned in late 2007. The snow storm that hit China in February 2008 followed by the rising global crude oil prices pushed methanol prices and many key materials to untenable levels in the second and third quarters of

FY2008. Production of DMF and methylamine which is dependent on using methanol as a key feedstock in its production suffered as a result of the volatile prices and unstable supply of methanol. Consequently, the new 120,000 tons DMF plant was shut for most part of the financial year operating at only 3% of its annual capacity. Whilst prices receded in the fourth quarter, demand for DMF took an abrupt fall following the global financial crisis that brought many economies to a drastic contraction.

Financial Review

Financial Highlights (RMB '000)	FY2008	FY2007	% Change
Revenue	252,486	301,668	-16.3
Gross Profit	32,175	101,464	-68.3
Gross Profit Margin	12.7%	33.6%	–
Profit/(Loss) before Tax	(45,832)	75,490	n/m
Profit/(Loss) after Tax Attributable to Shareholders	(50,819)	61,294	n/m

n/m: not meaningful

Group revenue in FY2008 contracted by 16.3% to RMB 252.5 million due mainly to the following factors:

(a) High cost of methanol, a key feedstock in the production of DMF seen from the second quarter of FY2008 up to November, made costs to produce DMF in our Group's second DMF plant of 120,000 tons capacity (which commenced operations from fourth quarter FY2007) untenable. This together with the snow storm experienced in the first quarter of FY2008 resulted in the plant shut for most part of the financial year, operating at just 3% of its production capacity.

(b) Shortages of key materials, namely water gas and steam and slowdown in demand in fourth quarter of FY2008 caused the Group's first plant of 30,000 tons capacity to operate at 91% of its annual capacity (against 105% in 2007).

Gross profit in FY2008 contracted by 68.3% from RMB 101.5 million in FY2007 to RMB 32.2 million and gross margins fell from 33.6% in FY2007 to 12.7% in FY2008 due largely to:

(a) the unabsorbed factory costs of RMB 20.4 million from the shut down of the Group's second DMF plant during the year as explained above;

(b) write down of value of inventories totaling RMB 16.1 million comprising RMB 13.2 million for methanol feedstock that was purchased in the second half of FY2008 which at the year's close experienced a significant drop in the selling price and the balance of RMB 2.9 million for finished goods; and

(c) lower capacity utilization in FY2008 and higher material costs further pushed up unit costs.

Review of Operations

Consequently the Group registered a loss of RMB 50.8 million in FY2008 against a profit of RMB 61.3 million for FY2007. In addition to the factors driving lower gross profit as explained above, the loss in the year was further exacerbated by:

(a) provision for impairment in value of the Group's second DMF plant of 120,000 tons capacity in Anyang Jiuyang Chemical Co., Ltd following the low plant utilization since it was commissioned in the fourth quarter of FY2007;

(b) the one-off back-charge of value-added tax of RMB 2.3 million imposed by the tax authority and related penalty charge over a dispute on the treatment of third party logistic costs for the delivery of goods to customers in FY2006 and FY2007;

(c) higher pre-operating expenses (comprising largely of amortization of land-use rights, land taxes and wages) incurred for the new 250,000 tons methanol plant in Anyang Jiulong Chemical Co., Ltd under construction of RMB 6.8 million; and

(d) higher finance costs of RMB 8.8 million from increase in bank loans during the year to finance the Group's expansion plans and working capital; higher cost of borrowing in FY2008 as a result of bank's credit tightening and capitalizing of part of FY2007 interest cost incurred on the Group's second DMF plant into fixed assets prior to its commissioning.

Group Balance Sheet

Group current assets as at 31 December 2008 decreased RMB 8.7 million relative to that as at 31 December 2007. The net decrease was largely due to:

(a) decrease in cash and bank balance of RMB 37.3 million from RMB 154.1 million to RMB 116.7 million. In May 2008, the Group raised RMB 184.7 million through a share placement exercise and received RMB 100 million deposit from Yong Mei Group for their agreement to inject RMB 200 million into Anyang Jiulong for a 32.15% strategic stake which is currently pending government approval as announced on 15 August 2008 and 1 September 2008. These were utilized to fund largely for the expenditure on the in-progress construction of the Anyang Jiulong methanol plant; the payment of part of the outstandings of the Anyang Jiuyang DMF plant completed in 2007 and RMB 60 million placed in a financial instrument with a local bank.

(b) decrease in trade receivables by RMB 63.1 million to RMB 92.4 million as at 31 December 2008 as some of the notes receivables held during the year had expired coupled with lower receivables from the drop in sales.

(c) other receivables increased RMB 5.9 million due to prepayments made to suppliers to secure key materials for production and input value-added tax receivable.

(d) inventories increased by RMB 25.8 million primarily due to the increase in methanol stocks purchased in 2nd half of 2008 of RMB 19 million vs none in 2007.

Non-current assets as at 31 December 2008 have significantly increased by RMB 139.7 million relative to 31 December 2007, largely due to the increase in investment in property, plant and equipment of RMB 172.4 million in relation to the in progress construction on the methanol plant under Anyang Jiulong less provision for impairment in the value of fixed assets for the 120,000 tonne DMF plant in Anyang Jiuyang. Land use rights decreased RMB 7.4 million due to value added taxes previously paid in advance were subsequently recovered coupled with the annual amortization of land use rights. Deferred tax asset increased by RMB 1.5 million largely due to the deferred tax asset taken up on the provision for the impairment of inventories.

Group's current liabilities increased RMB 22.4 million in 31 December 2008 relative to 31 December 2007. Trade payables decreased RMB 51.6 million as these were settled through the endorsement of notes receivables. Other payables however increased RMB 78.7 million due to the deposit of RMB 100 million received from Yong Mei Group (as explained above) which is treated as a deposit until the necessary approvals have been obtained for Yong Mei's injection of equity into Anyang Jiulong; note payable issued by bank for RMB 20 million less part repayment of payables due to contractors for the construction of the DMF plant in Anyang Jiuyang completed in 2007.

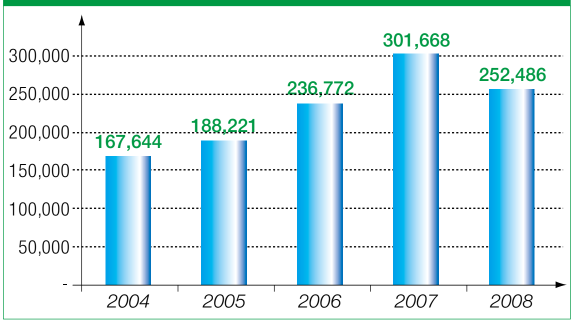
Minority interest relates mainly to the share of Anyang Chemical Industry Group Co., Ltd in Anyang Jiulong Chemical Co., Ltd and of Changzhou New District Xiean Resources Co. Ltd in Changzhou Jiutian Xiean Chemical Co. Ltd.

Net asset value as at 31 December 2008 was RMB 703.3 million, significantly greater than the net asset value as at 31 December 2007 of RMB 591.5 million. This was due to proceeds from the placement completed in May 2008 of RMB 184.7 million less losses incurred in 2008 and dividends paid to shareholders during the year.

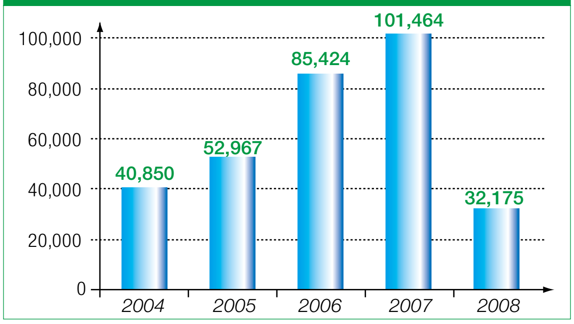
Outlook

Looking ahead, with global economies slipping into deeper recession and with general expectations that things will get worse in the early quarters before a recovery can be seen, the Group expects 2009 to continue to be a difficult year. Notwithstanding, the Group will focus its efforts on completing Anyang Jiulong's new methanol plant and taking the appropriate course of actions to minimize the impact of the slowdown.


Revenue (RMB'000)

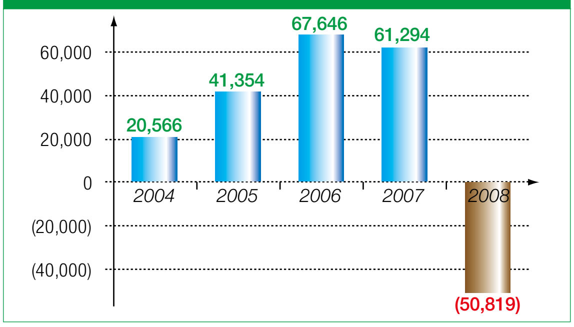


Gross Profit (RMB'000)



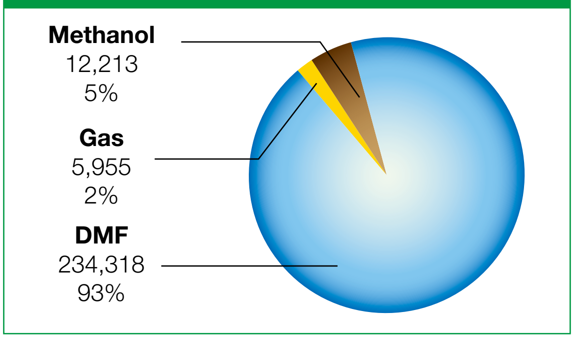
financial highlights

Profit Attributable to Shareholders (RMB'000)

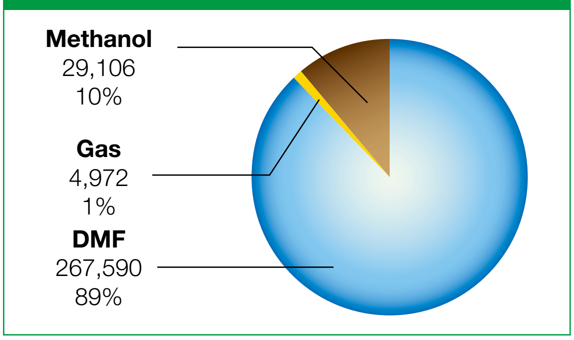


Earnings Per Share (RMB cents)

Sales by Segment FY2008



Sales by Segment FY2007



board of directors

1 **Mr Sun Zhiqiang**
Acting Executive Chairman and Acting Chief Executive Officer

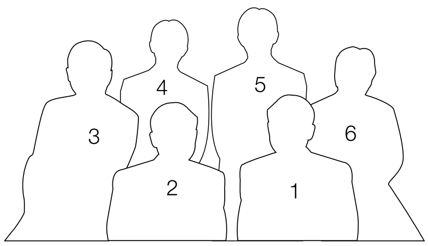
2 **Mr Zhang Aiping**
Executive Director and Group Chief Operating Officer

3 **Mr Lee Chee Seng**
Executive Director

4 **Mr Chan Kam Loon**
Independent Director

5 **Mr Foo Meng Kee**
Independent Director

6 **Mr Wu Yu Liang**
Lead Independent Director



Board of Directors

MR SUN ZHIQIANG

Acting Executive Chairman and Acting Chief Executive Officer

Mr Sun Zhiqiang, redesignated as Acting Executive Chairman and Acting Chief Executive Officer of the Group on 25 February 2009 following the resignation of former Executive Chairman, Mr Wang Xianjin, is responsible for the overall management and strategic planning for the development of the Group. Mr Sun graduated from Henan University with a degree in Chemical Engineering in 1993. Upon graduation, Mr Sun joined Anhua. He was promoted to the position of assistant engineer in 1996, engineer in 1999 and Deputy Head of workshop in 2000. In 2001, Mr Sun assisted Mr Wang in setting up Anyang Jiutian's DMF and methylamine production facilities.

MR ZHANG AIPING

Executive Director and Group Chief Operating Officer

Mr Zhang Aiping, Executive Director and Chief Operating Officer, has 18 years of experience in the fertilizer and steel industries. He was responsible for the re-organisation and restructuring exercise of Anyang Jiutian. Mr Zhang graduated from Henan Province Finance and Economics College with a diploma in statistics. He is qualified as an economist and holds professional managerial qualifications. Mr Zhang started working in Anyang Steel Factory in 1972 before joining Anhua in 1980. In 1986, he was appointed as Deputy Head of Production and Technical Department of Anhua. He was promoted to the position of the Head of Anhua's Production and Technical Department in 1992. In 2001, he was appointed as Head of Enterprise Management Department.

MR LEE CHEE SENG

Executive Director

Mr Lee Chee Seng, Executive Director, is responsible for corporate finance and strategic planning for the Group. Mr Lee graduated from the National University of Singapore obtaining First Class Honours degree in Bachelor of Civil Engineering in 1987. Upon graduation, Mr Lee joined the Monetary Authority of Singapore as a central banking officer. Mr Lee has been a qualified Chartered Financial Analyst (CFA) since 1990. Mr Lee joined Morgan Grenfell (Asia) Limited in 1988 and was promoted in 1993 to become the Managing Director of Deutsche Morgan Grenfell (Malaysia) to run its investment banking business in Malaysia. Mr Lee returned to Singapore in 1994 to become Head of Corporate Finance for South- East Asia for Deutsche Morgan Grenfell Asia. Between April 2001 and November 2003. Mr Lee served as Non-executive Director of Malaysian Plantations Berhad, a Malaysian holding company for Alliance Bank Malaysia, and as exco member on the boards of its banking and finance subsidiaries.

Board of Directors

MR WU YU LIANG

Lead Independent Director

Mr Wu Yu Liang is one of our Independent Directors. On 28 February 2008, Mr Wu was appointed by the Board as the Lead Independent Director of the Company. He graduated in 1985 from the University of Singapore with a degree in Bachelor of Laws with Second Class Honours (Upper Division). He was admitted as an Advocate and Solicitor of the Supreme Court of Singapore in 1986 and the High Court of Malaya in 1991. Mr Wu is currently the Managing Director of the Law Corporation WU LLC. His main areas of practice are corporate and commercial laws as well as litigation.

MR CHAN KAM LOON

Independent Director

Mr Chan Kam Loon is one of our Independent Directors. He holds a degree in Accounting and Finance from the London School of Economics and Political Science and is a Chartered Accountant with the Institute of Chartered Accountants in England and Wales. Between 1990 and 1996, Mr Chan worked at Morgan Grenfell Asia Ltd and HG Asia Securities Ltd in their corporate finance teams. From 1996 to 2001 Mr Chan was a Director of Investments at a private equity fund, Suez Asia Holdings Pte Ltd. From July 2001 to July 2004, Mr Chan headed up the Listings Function within the Markets Group at the Singapore Exchange Securities Trading Ltd.

MR FOO MENG KEE

Independent Director

Mr Foo Meng Kee is one of our Independent Directors. He holds a Bachelor of Commerce degree (Honours) from the Nanyang University of Singapore, as well as a Master of Business Administration degree from the University of Dubuque, United States of America. Mr Foo is currently the Managing Director of M K Capital Pte Ltd. Between 1976 and 1998, Mr Foo worked in Hitachi Zosen Singapore Limited (now known as Keppel Shipyard Limited) and became a board member in July 1989. When the company became listed in 1992, Mr Foo was appointed as Managing Director and served in the Executive and Audit Committees. Mr Foo has also been on the committee of the Association of Singapore Marine Industries and the Singapore Armed Forces Reservists' Association.

Senior Management

MR GOH KOON SENG

Chief Financial Officer

Mr Goh Koon Seng joined the Group as the Group's Chief Financial Officer in December 2007. He graduated with a Bachelor of Accountancy degree (Honours) from the National University of Singapore in 1988. Mr Goh qualified as a Certified Public Accountant and a member of the Institute of Certified Public Accountants of Singapore. From 2006 to 2007, Mr Goh was the Chief Financial Officer and Joint Company Secretary of See Hup Seng Ltd ("SHS"), a company listed on the Singapore Exchange Securities Trading Ltd that specializes in providing corrosion prevention services for the marine and offshore oil and gas sectors and a distributor of refined petroleum products for the asia pacific region. Prior to joining SHS, Mr Goh was the General Manager (Singapore, Indonesia, Philippines and Brunei) of Cerebos Pacific Ltd, a company listed on the Singapore Exchange Securities Trading Ltd, where he had held a number of senior finance and management positions spanning over 16 years.

MR HAN LIANGGUO

Head of Production and Technical Department (including Research & Development Centre)

Mr Han Liangguo, Head of Production and Technical Department, is responsible for the management and deployment of our production personnel, setting of the Company's technical targets, ensuring stable production and energy conservation. Mr Han graduated with a chemical engineering degree from Zhengzhou Industrial University Chemical Industry College in 1996. Mr Han also heads the Research & Development Centre.

MR FU MINGFANG

Head of Marketing Department

Mr Fu Mingfang, Head of Marketing Department, is responsible for directing market research, planning, market analysis and forecast, monitoring national and international development and changes in product market, formulating marketing strategy and brand strategy. Mr Fu graduated with a diploma in Electric Automation from Anyang University in 1989 and pursued a degree in wireless electronics technology from Zhengzhou University from 1993 to 1996.

MR JIANG JINLONG

Head of Administrative Support Department

Mr Jiang Jinlong, Head of Administrative Support Department, is responsible for formulating and implementing policies for planning statistics, formulating and implementing human resource policies, planning and organizing conferences, meetings and activities. Mr Jiang graduated with a degree in Industrial Business Management from Henan Finance and Economics College in 2000.

MR GUO YONGJUN

Financial Controller

Mr Guo Yongjun was appointed as Financial Controller in December 2006. After graduating from the Anyang School of Finance and Accountancy majoring in accountancy in 1991, he joined the finance department in Anhua and was primarily responsible for capital management and project financial management. In 2001, Mr Guo was appointed the deputy head of finance in Anhua. In July 2005, Mr Guo joined Anyang Jiutian where he was involved in matters relating to the Group's initial public offering. Mr Guo also obtained a bachelor's degree in Business Management from the Henan Finance and Economics College in 2004. In December 2006, Mr Guo was conferred Senior Accountant certification after passing national professional examinations and obtaining approval from the Henan Professional Vetting Committee.

Corporate Governance Report

JIUTIAN CHEMICAL GROUP LIMITED ("Jiutian Chemical" or the "Company") is committed to high standards of corporate governance within the Company and its subsidiaries (the "Group") to advance its mission to create value for the Group's customers and shareholders. This Corporate Governance Statement reports the manner in which the Group has applied the principles and the extent of compliance with the guidelines as set out in the Code of Corporate Governance 2005 ("Code 2005").

BOARD MATTERS

Principle 1 – Board's Conduct of its Affairs

The Company is led by an effective Board, working closely with Management for the success of the Company. The composition of the Board is as follows:

Mr Sun Zhiqiang	Acting Chairman and Acting Chief Executive Officer
Mr Zhang Aiping	Executive Director
Mr Lee Chee Seng	Executive Director
Mr Wu Yu Liang	Non-Executive and Lead Independent Director
Mr Chan Kam Loon	Non-Executive and Independent Director
Mr Foo Meng Kee	Non-Executive and Independent Director

The principal functions of the Board apart from its statutory responsibilities are to:

(a) set values and standards of the Company and ensure that obligations to shareholders are understood and met;

(b) provide entrepreneurial leadership, approve the strategic and financial objectives corporate policies and authorisation matrix of the Company;

(c) oversee the processes for risk management, financial reporting and compliance and evaluate the adequacy of internal controls; approve annual budget, key operational matters, major acquisition and divestment proposals and major funding proposals of the Company;

(d) review management performance;

(e) approve the nominations to the Board of Directors and appointment of key management, as may be recommended by the Nominating Committee; and

(f) formulate and put in place corporate governance framework of the Company.

The Board meets at least four times a year. Ad-hoc meetings are convened as warranted by circumstances or deemed appropriate by the Board members. Non-executive directors are encouraged to meet regularly without management present.

The Board also meets to consider, but not limited to, the following corporate matters which are reserved for the Board's approval:

(a) Approval of quarterly results announcements;

(b) Approval of the Annual Reports and audited financial statements;

(c) Convening of shareholders' meetings; and

(d) Approval of corporate strategies and corporate budgets.

To facilitate effective management, certain functions of the Board have been delegated to various Board Committees, namely Audit, Nominating and Remuneration Committees. Further information regarding the function and details of the terms of reference of the Board Committees are set out in the later part of the Report.

Directors' attendance at meetings of the Board and Board Committees during the financial year is as follows:

Name	**Board**	**Audit Committee**	**Nominating Committee**	**Remuneration Committee**
	Number of Meetings held: 4	**Number of Meetings held: 4**	**Number of Meetings held: 1**	**Number of Meetings held: 1**
	Number of Meetings Attended	**Number of Meetings Attended**	**Number of Meetings Attended**	**Number of Meetings Attended**
Wang Xianjin*	4	n.a.	n.a.	n.a.
Zhang Aiping	4	n.a.	1	n.a.
Sun Zhiqiang	4	n.a.	n.a.	n.a.
Lee Chee Seng	4	n.a.	n.a.	n.a.
Wu Yu Liang	4	4	n.a	1
Chan Kam Loon	4	4	1	1
Foo Meng Kee	4	4	1	1

* Resigned on 25 February 2009.
n.a.: not applicable

The Directors are responsible for their own training needs and report to the Company. Each director is entitled a certain budget to their training needs, to keep abreast with the latest developments such as updates on the relevant laws and regulations, changes in technology and industrial practice relating to the Company's business.

The Company will arrange for all newly appointed directors (if any) to meet with the Company's senior management to familiarise themselves with the business, operations and governance practices of the Company and its subsidiaries.

Under the existing Articles of Association of the Company, the Directors may participate in a meeting of the Directors by means of a conference via telephone or similar communications.

Principle 2 – Board Composition and Balance

The Board comprises six directors of whom three are non-executive independent directors. The profiles of the Directors are set out on pages 18 and 19 of this Annual Report.

The current size of the Board is appropriate for the facilitation of decision making. The Board will continue to review the size of the Board on an ongoing basis. As a team, the Board collectively provides core competencies in the areas of accounting, finance, legal, business and management, as well as industry knowledge.

Principle 3 – Executive Chairman and Chief Executive Officer

The roles of Acting Chairman and the Acting Chief Executive Officer ("CEO") are currently undertaken by Mr Sun Zhiqiang (Mr Wang Xianjin resigned on 25 February 2009 due to his deterioriating heart conditions). The Company recognises that in accordance with the Code 2005, the two roles should be kept separate. However, as Mr Sun Zhiqiang was one of the founding managers of the Company and responsible in the setting up of Anyang Jiutian Fine Chemical Co., Ltd's DMF and methylamine production facilities in 2001 together with Mr Wang Xianjin, he was unanimously chosen and appointed by the Board to act as the Company's Acting Executive Chairman as well as Acting CEO. The Board recognises the importance of corporate governance and believe in offering high standards of accountability to the shareholders and will follow closely the guidelines set out in the Code 2005. Accordingly, the Board has, on 28 February 2008, appointed Mr. Wu Yu Liang as the Lead Independent Director of the Company who shall be available to shareholders where they have concerns which contact through the normal channels of the Chairman, CEO or CFO has failed to resolve or for which such contact is inappropriate.

The Chairman is responsible for the workings of the Board, ensuring the integrity and effectiveness of its governance process. He works closely with the Board to implement the policies set by the Board to realise the Group's vision.

Principle 4 – Board Membership

Nominating Committee

The Nominating Committee ("NC") comprises three Directors, majority of whom, including the Chairman is independent. The NC members are:

Foo Meng Kee (Chairman)	(Non-executive and Independent)
Chan Kam Loon	(Non-executive and Independent)
Zhang Aiping	(Executive)

The principal functions of the NC are to:

(a) identify, review and recommend candidates for appointment as Directors of the Company and appointment to the Board committee as well as to senior management positions in the Company;

(b) evaluate the effectiveness of the Board as a whole and assess the contribution by each Director, to the effectiveness of the Board;

(c) determine annually whether or not a Director is independent; and

(d) make recommendations to the Board on re-appointment of Board and Board committee members.

Corporate Governance Report

The Company has set a formal and transparent process for the selection and appointment of new directors to the Board.

During the year, the NC met and determined the independence of the Directors is in line with the requirements of the Code 2005.

In accordance with the provisions of the Company's Articles of Association, one-third of our Directors retires by rotation and submits themselves to re-election at every Annual General Meeting. The CEO who is a member of the Board must also subject himself to retirement by rotation and re-election by shareholders.

The Directors who have submitted themselves for re-election at the forthcoming Annual General Meeting of the Company are Mr Sun Zhiqiang, Mr Zhang Aiping and Mr Lee Chee Seng. Their profiles are shown on page 18 of the Annual Report.

Principle 5 – Board Performance

The Nominating Committee uses objective and appropriate quantitative and qualitative criteria to assess the performance of individual directors, and the Board as a whole. Assessment parameters include the attendance records of the directors at Board or Committee meetings, the level of participation at such meetings, the quality of Board processes and the business performance of the Group.

The NC is of the opinion that the Board is able to exercise objective judgement on corporate affairs independently and no individual or small group of individuals dominates the Board's decision making process.

Principle 6 – Access to Information

Board members are provided with management information pertaining to such areas e.g. budget, forecast, the funding positions and cashflow projections of the Group, to help them carry out their responsibilities effectively. In addition, all relevant information on material events and transactions are circulated to directors as and when they arise.

All Board members have separate and independent access to the advice and services of the Company Secretary, who is responsible to the Board for ensuring that board procedures are followed and that applicable rules and regulations are complied with. All Board members also have separate and independent access to the senior management of the Company and the Group.

The Company Secretary attends all board meetings of the Company. The appointment and removal of the company secretary should be a matter for the Board as a whole.

Board members are aware that they, whether as a group or individually, in the furtherance of their duties, can take independent professional advice, if necessary, at the Company's expense.

Principle 7 – Procedures for Developing Remuneration Policies

Remuneration Committee

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

Wu Yu Liang (Chairman)	(Non-executive and Independent)
Chan Kam Loon	(Non-executive and Independent)
Foo Meng Kee	(Non-executive and Independent)

The principal functions of the RC are to:

(a) review and recommend to the Board a framework of remuneration for the Directors and key executives;

(b) determine the specific remuneration packages for each Executive Director and senior group management personnel; and

(c) recommend the fees of the Non-executive Directors.

In its review, the Remuneration Committee's objective is to establish and maintain a level of remuneration that would be appropriate to attract, retain and motivate the directors and key executives to run the Company successfully. The RC also ensures that the remuneration policies and systems of the Group support the Group's objectives and strategies.

The Board has established a framework of remuneration for the directors and senior management which cover all aspect of remuneration, including but not limited to director's fees, salaries, allowances, bonuses, benefits in kind.

The Directors did not participate in any decision concerning their own remuneration.

Principle 8 – Level and Mix of Remuneration

The RC recommends to the Board a framework of remuneration for the Directors and key executive officers, and determines specific remuneration packages for each Executive Director. The recommendations of the RC on the remuneration of Directors would be submitted for endorsement by the entire Board. All aspects of remuneration, including but not limited to Directors' fees, salaries, allowances, bonuses and benefits-in-kind shall be reviewed by the RC.

Principe 9 – Disclosure on Remuneration

In setting the remuneration packages of the Executive Directors, the Company makes a comparative study of the packages of executive directors in comparable industries and takes into account the performance of the Company.

Non-executive Directors are paid a basic fee. The Chairman of each of Board Committees is compensated for his additional responsibilities. Such fees are approved by the shareholders of the Company as a lump sum payment at the annual general meeting of the Company.

Corporate Governance Report

The details of the remuneration of the Directors and Key Management are as follows:

	Fees	Salary	Bonus	Other Benefits	Total
DIRECTORS					
S$250,000 – S$500,000					
Lee Chee Seng	–	58%	31%*	10%	100%
Below S$250,000					
Wang Xiangjin**	–	82%	17%	1%	100%
Zhang Aiping	–	81%	18%	1%	100%
Sun Zhiqiang	–	81%	18%	1%	100%
Foo Meng Kee	100%	–	–	–	100%
Chan Kam Loon	100%	–	–	–	100%
Wu Yu Liang	100%	–	–	–	100%
KEY MANAGEMENT					
Below S$250,000					
Goh Koon Seng	–	82%	7%	11%	100%
Han Liangguo	–	21%	72%	7%	100%
Fu Mingfang	–	23%	70%	7%	100%
Jiang Jinlong	–	29%	62%	9%	100%
Guo Yongjun	–	21%	71%	8%	100%

* relates largely to FY2007 variable bonus approved and paid in FY2008.

** Resigned on 25 February 2009.

None of the employees whose remuneration exceeds S$150,000 is an immediate family member of the Directors.

ACCOUNTABILITY AND AUDIT

Principle 10 – Accountability

The Board accepts that it is accountable to the shareholders while the management is accountable to the Board. Management provides all members of the Board with a balanced and understandable management accounts of the Company's performance, position and prospects on a regular basis. The Board provides the shareholders with a balanced and understandable assessment of the Company's performance, position and prospects on a quarterly basis. Such responsibility is extended to the other price-sensitive public reports and reports to regulators (if required).

Principle 11 – Audit Committee

The Audit Committee ("AC") comprises the following:

Chan Kam Loon (Chairman)	(Non-executive and Independent)
Foo Meng Kee	(Non-executive and Independent)
Wu Yu Liang	(Non-executive and Independent)

The AC meets periodically to perform the following main functions:

(a) to review with the external auditors the audit plan and the results of our internal auditors' examination and evaluation of the adequacy and effectiveness of our systems of internal controls annually;

(b) to review the independence of the external auditors annually;

(c) to review the appointment and re-appointment of the external auditors;

(d) to review the consolidated financial statements and balance sheets and profit and loss accounts and the external auditors' report on those financial statement, before submission to the Board of Directors for approval;

(e) to review the co-operation given by our management to our external auditors;

(f) to review and approve interested person transactions;

(g) to review potential conflict of interests; if any;

(h) to undertake such other reviews and projects as may be requested by the Board, and will report to our Board its findings from time to time on matters arising and requiring the attention of the AC;

(i) to generally undertake such other functions and duties as may be required by the statute or the SGX-ST Listing Manual, and by such amendments made thereto from time to time; and

(j) to review the Whistle Blowing Policy.

The AC has full access to, and cooperation from the Management including the external auditors, and has full discretion to invite any director and executive officer to attend its meetings. The AC also has power to investigate any matter brought to its attention, within its terms of reference, with the power to retain professional advice at the Company's expense.

The AC meets with the external auditors, without the presence of the management at least once a year.

The AC, having reviewed the non-audit services provided by the external auditors to the Group, is satisfied with the independence and objectivity of the external auditors and recommends to the Board of Directors, the nomination of the external auditors for re-appointment.

Principle 12 – Internal Controls

The Group maintains a system of internal controls for all companies within the Group, but recognises that no internal control system will preclude all errors and irregularities. The system is designed to manage rather than to eliminate the risk of failure to achieve business objectives. The controls are to provide reasonable, but not absolute, assurance to safeguard shareholders' investments and the Group's assets.

The AC assisted the Board to review the effectiveness of the internal audit function annually and is satisfied with the current state of internal controls system of the Company.

Corporate Governance Report

The Company has developed a whistle blowing policy. This policy provides well-defined and accessible channels in the Group through which employees may raise concerns about improper conduct within the Group.

Principle 13 – Internal Audit

The Board recognises the importance of the internal audit function which, being independent of Management is one of the principal means by which the AC is able to carry out its responsibilities effectively. Messrs Horwath First Trust are the existing internal auditors of the Group.

COMMUNICATIONS WITH SHAREHOLDERS

Principle 14 – Regular, Effective and Fair Communication with Shareholders

The Group strives for timeliness and transparency in its disclosures to the shareholders and the public. In addition to the regular dissemination of information through SGXNET, the Company also responds to enquiries from investors, analysts, fund managers and the press. However, the Company does not practise selective disclosure as all price-sensitive information is always released through SGXNET.

The Board may from time to time review the provisions of the existing Articles of Association of the Company to ensure they are in line with the good corporate governance practices as recommended by the Code. If the Board deems fit, it may propose any necessary amendment to the same to the shareholders for approval.

Principle 15 – Encourages Greater Shareholder Participation

The Annual General Meeting ("AGM") of the Company is the principal forum for dialogue and interaction with all shareholders. The Board welcome shareholders to voice their views and ask the Board questions regarding the Company and the Group. The Chairpersons of the Board Committees, external auditors and key management staff are invited to attend the annual general meetings of the Company.

CODE OF CONDUCT

Dealing in Securities

The Board is aware of the guidelines of the corporate disclosure policy and the requirements for continuing disclosure as set out in the Listing Manual of the SGX-ST. The Board has the responsibility to ensure that the Directors and employees are prohibited from securities dealings whilst they are in possession of price-sensitive information.

The Company issues regular circulars to its Directors, principal officers and relevant officers who have access to unpublished material price-sensitive information to remind them of the aforementioned prohibition and to remind them of the requirement to report their dealings in shares of the Company. The Directors and employees are also prohibited from dealing in the securities of the Company during the period commencing two weeks before the announcement of the Company's first three quarter results and one month before the announcement of the Company's full year results and ending on the date of the particular announcement.

Interested Party Transactions ("IPT")

The Audit Committee is satisfied that the review procedures for IPTs and the reviews to be made periodically by the AC in relation thereto are adequate to ensure that the IPTs, if any, will be transacted on normal terms and will not be prejudicial to the interests of the Company and its minority shareholders.

There was no IPT in the Group during the financial year.

Material Contracts

There are no material contracts of the Company or its subsidiaries involving the interests of the Executive Chairman, Chief Executive Officer or any other Directors or controlling shareholders at the end of the financial year.

Use of Proceeds from Placement of New Shares

(A) Pursuant to separate placement agreements dated 15 February 2007 entered between the Company and Legg Mason International Equities (Singapore) Pte Ltd, DBS Vickers Securities (Singapore) Pte Ltd and SBI-E2 Capital Asia Securities Pte Ltd, the Company has allotted and issued 22,980,000 new ordinary shares in the capital of the Company at an issue price of S$2.07 per share.

The Company intends to utilize the total net proceeds of approximately S$47.0 million raised from placement for the investments relating to the Company's area of core competence, that is, coal-based fine chemical products and any balance as working capital of the Company.

As at 31 March 2009, the Company had fully disbursed the total net proceeds by utilizing approximately S$40.2 million (in accordance with the announcements made on 16 May 2007 and 29 February 2008) for the construction of Anyang Jiulong's 250,000 tonne methanol production facility and the balance for the Group's working capital.

(B) Pursuant to separate placement agreements dated 22 May 2008 entered between the Company and Royal Bank of Canada (Asia) Limited ("Royal Bank"), Chew Hua Seng ("CHS"), DBS Vickers Securities (Singapore) Pte Ltd ("DBS Vickers") and SBI E2-Capital Asia Securities Pte. Ltd. ("SBI"), the Company has allotted and issued 275,900,000 new ordinary shares in the capital of the Company at an issue price of S$0.135 per share.

The Company intends to utilise the net proceeds of S$36.9 million from the Placement to fund approximately S$19.6 million (RMB 98 million) for the Company's increase in its equity stake in Anyang Jiulong Chemical Co., Ltd from 51% to 75.5%, as previously announced by the Company in its press release via the SGXNET on 14 January 2008; and (ii) the balance net proceeds of approximately S$17.3 million for the Group's investment and operating needs.

As at 31 March 2009, the Company had disbursed S$19.8 million for the Company's increase in its equity stake in Anyang Jiulong Chemical Co.,Ltd and S$9.1m for increase in the paid up capital of its wholly owned subsidiary, Anyang Jiuyang Chemical Co., Ltd as announced on 24 December 2008. The remaining balance of the net proceeds from the placement has been placed in fixed deposits pending disbursement.

Report of the Directors

The directors present their report together with the audited consolidated financial statements of the Group and the audited balance sheet and statement of changes in equity of the Company for the financial year ended December 31, 2008.

1 DIRECTORS

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

Sun Zhiqiang
Zhang Aiping
Lee Chee Seng
Foo Meng Kee
Chan Kam Loon
Wu Yu Liang

Mr Wang Xianjin resigned as a director of the Company on February 25, 2009.

2 ARRANGEMENTS TO ENABLE DIRECTORS TO ACQUIRE SHARES OR DEBENTURES

Neither at the end of the financial year nor at any time during the financial year did there subsist any arrangement whose object is to enable the directors of the Company to acquire benefits by means of the acquisition of shares or debentures in the Company or any other body corporate, except for the warrants disclosed below.

3 DIRECTORS' INTERESTS IN SHARES AND DEBENTURES

The directors holding office at the end of the financial year had no interest in the share capital of the Company and shares and debentures of related corporations as recorded in the register of directors' shareholdings kept by the Company under Section 164 of the Singapore Companies Act except as follows:

	Holdings at		
Name of directors and companies in which interest are held	**January 1, 2008**	**December 31, 2008**	**January 21, 2009**
Interest in the Company – ordinary shares			
Sun Zhiqiang (deemed interest)	466,725,000	470,625,000	470,625,000
Zhang Aiping (deemed interest)	466,725,000	470,625,000	470,625,000
Wang Xianjin (deemed interest)	466,725,000	470,625,000	470,625,000
Lee Chee Seng	8,250,000	8,500,000	8,500,000
Lee Chee Seng (deemed interest)	75,419,000	76,169,000	76,169,000
Chan Kam Loon (deemed interest)	–	1,360,000	1,360,000
Interest in the Company – warrants			
Sun Zhiqiang (deemed interest)	93,045,000	93,045,000	93,045,000
Zhang Aiping (deemed interest)	93,045,000	93,045,000	93,045,000
Wang Xianjin (deemed interest)	93,045,000	93,045,000	93,045,000
Lee Chee Seng	1,650,000	1,650,000	1,650,000
Lee Chee Seng (deemed interest)	14,883,800	14,883,800	14,883,800

By virtue of section 7 of the Singapore Companies Act, Mr Sun Zhiqiang, Mr Zhang Aiping and Mr Wang Xianjin are deemed to have interest in all the related corporations of the Company.

4 DIRECTORS' RECEIPT AND ENTITLEMENT TO CONTRACTUAL BENEFITS

Since the beginning of the financial year, no director has received or become entitled to receive a benefit which is required to be disclosed under Section 201(8) of the Singapore Companies Act by reason of a contract made by the Company or a related corporation with the director or with a firm of which he is a member or with a company in which he has a substantial financial interest except as disclosed in the accompanying financial statements and that certain directors have received remuneration from related corporations in their capacity as directors and or executives of those related corporations.

5 SHARE OPTIONS

(a) Options to take up unissued shares

During the financial year, no options to take up unissued shares of the Company and its subsidiaries were issued.

(b) Option exercised

During the financial year, there were no shares of the Company and its subsidiaries issued by virtue of the exercise of an option to take up unissued shares.

(c) Unissued shares under option

At the end of the financial year, there were no unissued shares of the Company and its subsidiaries under option.

(d) Warrants

On October 16, 2007, the Company issued 275,908,800 bonus warrants on the basis of one warrant for every five existing shares held. Each warrant entitles the warrant holder to subscribe for one new ordinary share in the Company at the exercise price of $0.80 per share on or before October 15, 2010. The new ordinary shares will rank pari passu in all respects with the then existing ordinary shares, save for any dividends, rights, allotment or other distributions, the record date for which is on or before the relevant exercise date of the warrants.

Date of issue	Exercise price per share	Warrants outstanding at January 1, 2008	Warrants exercised	Warrants outstanding at December 31, 2008	Date of expiry
October 16, 2007	$0.80	275,908,800	–	275,908,800	October 15, 2010

6 AUDIT COMMITTEE

The Audit Committee of the Company is chaired by Mr Chan Kam Loon and includes Mr Foo Meng Kee and Mr Wu Yu Liang. All of them are independent directors of the Company. The Audit Committee has met periodically since the last Annual General Meeting ("AGM") and has reviewed the following, where relevant, with the executive directors and external and internal auditors of the Company:

(a) the audit plans and results of the internal auditors' examination and evaluation of the Group's systems of internal accounting controls;

(b) the Group's financial and operating results and accounting policies;

(c) the financial statements of the Company and the consolidated financial statements of the Group before their submission to the directors of the Company and external auditors' report on those financial statements;

(d) the quarterly, half-yearly and annual announcements as well as the related press releases on the results and financial position of the Company and the Group;

(e) the co-operation and assistance given by the management to the Group's external auditors; and

(f) the re-appointment of the external auditors of the Group.

The Audit Committee has full access to and has the co-operation of management and has been given the resources required for it to discharge its function properly. It also has full discretion to invite any director and executive officer to attend its meetings. The external and internal auditors have unrestricted access to the Audit Committee.

The Audit Committee has recommended to the directors the nomination of Deloitte & Touche LLP for re-appointment as external auditors of the Group at the forthcoming AGM of the Company.

7 AUDITORS

The auditors, Deloitte & Touche LLP, have expressed their willingness to accept re-appointment.

ON BEHALF OF THE DIRECTORS

Sun Zhiqiang

Zhang Aiping

April 2, 2009

Independent Auditors' Report

To the Members of Jiutian Chemical Group Limited

We have audited the accompanying financial statements of Jiutian Chemical Group Limited ("the Company") and its subsidiaries ("the Group") which comprise the balance sheets of the Group and the Company as at December 31, 2008, the profit and loss statement, statement of changes in equity and cash flow statement of the Group and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 35 to 83.

Management's Responsibility

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 judgment, 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 the 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,

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

(b) 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.

Deloitte & Touche LLP
Public Accountants and
Certified Public Accountants
Singapore

Patrick Tan Hak Pheng
Partner
Appointed on June 1, 2008

April 2, 2009

Balance Sheets

December 31, 2008

(Expressed in Renminbi)

	Note	Group		Company	
		2008	2007	**2008**	2007
		RMB'000	RMB'000	**RMB'000**	RMB'000
ASSETS					
Current assets					
Cash and bank balances	5	**116,754**	154,099	**80,778**	129,044
Held-for-trading investment	6	**60,000**	–	**–**	–
Trade receivables	7	**92,383**	155,467	**–**	–
Other receivables and prepayments	8	**33,157**	27,232	**1,152**	472
Inventories	9	**43,876**	18,045	**–**	–
Land use rights	10	**3,208**	3,245	**–**	–
Total current assets		**349,378**	358,088	**81,930**	129,516
Non-current assets					
Land use rights	10	**51,446**	58,840	**–**	–
Property, plant and equipment	11	**829,449**	683,972	**319**	515
Investment in subsidiaries	12	**–**	–	**487,460**	253,237
Loans receivable from subsidiaries	13	**–**	–	**–**	72,463
Deferred tax assets	14	**2,648**	1,037	**–**	–
Goodwill on consolidation	15	**523**	523	**–**	–
Total non-current assets		**884,066**	744,372	**487,779**	326,215
Total assets		**1,233,444**	1,102,460	**569,709**	455,731
LIABILITIES AND EQUITY					
Current liabilities					
Trade payables	16	**67,352**	118,982	**–**	–
Other payables	17	**226,132**	147,480	**2,358**	6,834
Current portion of bank loans	18	**68,900**	73,000	**–**	–
Income tax payable		**1,190**	1,727	**316**	–
Total current liabilities		**363,574**	341,189	**2,674**	6,834
Non-current liabilities					
Bank loans	18	**70,000**	70,000	**–**	–
Deferred income	19	**776**	841	**–**	–
Total non-current liabilities		**70,776**	70,841	**–**	–
Capital and reserves					
Share capital	20	**623,946**	439,291	**623,946**	439,291
Reserve fund	21	**26,064**	20,521	**–**	–
Currency translation deficit		**(12,968)**	(3,232)	**(19,081)**	(1,747)
Accumulated profits (losses)		**66,186**	134,895	**(37,830)**	11,353
Equity attributable to equity holders of the Company		**703,228**	591,475	**567,035**	448,897
Minority interest		**95,866**	98,955	**–**	–
Total equity		**799,094**	690,430	**567,035**	448,897
Total liabilities and equity		**1,233,444**	1,102,460	**569,709**	455,731

See accompanying notes to financial statements.

Consolidated Profit and Loss Statement

Financial year ended December 31, 2008

(Expressed in Renminbi)

	Note	2008	2007
		RMB'000	RMB'000
Revenue	22	**252,486**	301,668
Cost of sales		**(220,311)**	(200,204)
Gross profit		**32,175**	101,464
Other income	23	**4,373**	4,766
Impairment of property, plant and equipment	11	**(27,000)**	–
Administrative expenses		**(37,074)**	(23,349)
Distribution costs		**(1,095)**	(2,310)
Other expenses	24	**(3,917)**	–
Finance costs	25	**(13,294)**	(5,081)
(Loss) Profit before income tax	26	**(45,832)**	75,490
Income tax expense	27	**(8,178)**	(15,241)
(Loss) Profit for the year		**(54,010)**	60,249
Attributable to:			
Equity holders of the Company		**(50,819)**	61,294
Minority interest		**(3,191)**	(1,045)
		(54,010)	60,249
(Loss) Earnings per share (RMB cents)			
– Basic	28	**(3.32)**	4.51
– Diluted	28	**(3.32)**	4.51

See accompanying notes to financial statements.

Statements of Changes in Equity

Financial year ended December 31, 2008

(Expressed in Renminbi)

	Share capital	Reserve fund	Currency translation (deficit) reserve	Accumulated profits	Equity attributable to equity holders of the Company	Minority interest	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group							
Balance at January 1, 2007	200,662	12,388	595	96,612	310,257	–	310,257
Currency translation representing recognition directly in equity	–	–	(3,827)	–	(3,827)	–	(3,827)
Profit for the year	–	–	–	61,294	61,294	(1,045)	60,249
Total recognised income and expense for the year	–	–	(3,827)	61,294	57,467	(1,045)	56,422
Issue of shares:							
– Share placement, net of expenses	238,629	–	–	–	238,629	–	238,629
Contribution from minority shareholders	–	–	–	–	–	100,000	100,000
Dividend paid (Note 33)	–	–	–	(14,878)	(14,878)	–	(14,878)
Transfer (Note 21)	–	8,133	–	(8,133)	–	–	–
Balance at December 31, 2007	439,291	20,521	(3,232)	134,895	591,475	98,955	690,430
Currency translation representing recognition directly in equity	–	–	(9,736)	–	(9,736)	–	(9,736)
Loss for the year	–	–	–	(50,819)	(50,819)	(3,191)	(54,010)
Total recognised income and expense for the year	–	–	(9,736)	(50,819)	(60,555)	(3,191)	(63,746)
Issue of shares:							
– Share placement, net of expenses	184,655	–	–	–	184,655	–	184,655
Dividend paid (Note 33)	–	–	–	(12,347)	(12,347)	–	(12,347)
Transfer (Note 21)	–	5,543	–	(5,543)	–	–	–
Others	–	–	–	–	–	102	102
Balance at December 31, 2008	623,946	26,064	(12,968)	66,186	703,228	95,866	799,094

Statements of Changes in Equity

Financial year ended December 31, 2008

	Share capital	Currency translation (deficit) reserve	Accumulated profits (losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Company				
Balance at January 1, 2007	200,662	595	11,816	213,073
Currency translation representing recognition directly in equity	–	(2,342)	–	(2,342)
Profit for the year	–	–	14,415	14,415
Total recognised income and expenses for the year	–	(2,342)	14,415	12,073
Issue of shares:				
– Share placement, net of expenses	238,629	–	–	238,629
Dividend paid (Note 33)	–	–	(14,878)	(14,878)
Balance at December 31, 2007	439,291	(1,747)	11,353	448,897
Currency translation representing recognition directly in equity	–	(17,334)	–	(17,334)
Loss for the year	–	–	(36,836)	(36,836)
Total recognised income and expenses for the year	–	(17,334)	(36,836)	(54,170)
Issue of shares:				
– Share placement, net of expenses	184,655	–	–	184,655
Dividend paid (Note 33)	–	–	(12,347)	(12,347)
Balance at December 31, 2008	623,946	(19,081)	(37,830)	567,035

See accompanying notes to financial statements.

Consolidated Cash Flow Statement

Financial year ended December 31, 2008

(Expressed in Renminbi)

	Note	2008	2007
		RMB'000	RMB'000
Operating activities			
(Loss) Profit before income tax		(45,832)	75,490
Adjustments for:			
Depreciation expense		35,541	16,124
Impairment of property, plant and equipment		27,000	–
(Gain) Loss on disposal of property, plant and equipment		(722)	9
Exchange differences arising on foreign currency translation		(7,667)	(2,997)
Amortisation of land use rights		3,164	349
Amortisation of deferred income		(65)	(65)
Allowance for trade receivables		33	14
Allowance for inventories		16,092	–
Interest income		(1,142)	(4,385)
Interest expense		13,294	5,081
Operating cash flows before movements in working capital		39,696	89,620
Trade receivables		63,051	(74,222)
Other receivables and prepayments		(5,925)	(24,413)
Inventories		(41,923)	(17,028)
Trade payables		(51,630)	64,613
Other payables		37,810	4,813
Cash generated from operations		41,079	43,383
Interest paid		(12,857)	(4,519)
Interest received		1,378	4,340
Income tax paid		(10,305)	(13,498)
Net cash from operating activities		19,295	29,706
Investing activities			
Refund from tax authority on land use rights	10	6,695	–
Refund from tax authority on property, plant and equipment	11	6,020	–
Acquisition of land use rights		(2,428)	(56,753)
Purchase of property, plant and equipment	A	(273,287)	(394,714)
Proceed from disposal of property, plant and equipment		772	–
Purchase of held-for-trading investments		(60,000)	–
Net cash used in investing activities		(322,228)	(451,467)

Consolidated Cash Flow Statement

Financial year ended December 31, 2008

	Note	2008	2007
		RMB'000	RMB'000
Financing activities			
Proceeds from placement of shares, net of expenses		**184,655**	238,629
Advance capital injection in subsidiary	B	**100,000**	–
Proceeds from bank loans		**108,900**	143,000
Decrease (Increase) in restricted cash and cash equivalents:			
— Advance capital injection from Yong Mei Group		**(25,100)**	–
— Pledged bank deposits		**8,587**	(8,587)
Contribution from minority shareholders of subsidiaries		**–**	100,000
Repayment of bank loans		**(113,000)**	(37,000)
Dividends paid		**(12,347)**	(14,878)
Net cash from financing activities		**251,695**	421,164
Net decrease in cash and cash equivalents		**(51,238)**	(597)
Cash and cash equivalents at beginning of year		**145,512**	146,939
Effect of foreign exchange rate changes		**(2,620)**	(830)
Cash and cash equivalents at end of year		**91,654**	145,512
Reconciliation to notes to the financial statements			
Cash and bank balances		**116,754**	154,099
Less: Pledged bank deposits		**–**	(8,587)
Less: Advance share capital injection into subsidiary	B	**(25,100)**	–
Cash and cash equivalents at end of year		**91,654**	145,512

NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(A) In 2007, the Group acquired property, plant and equipment with an aggregate cost of RMB523,574,000 of which RMB128,860,000 was outstanding as at December 31, 2007. In 2008, RMB59,157,000 was paid and the outstanding balance of RMB69,703,000 is reflected in other payables. The Group also acquired property, plant and equipment with an aggregate cost of RMB214,130,000 in cash.

(B) Included in other payable in 2008 is RMB100 million of advance capital injection received from Yong Cheng Coal & Electric Group Limited ("Yong Mei Group") described in Note 1(d) to the financial statements. The use of the funds is restricted and subject to Yong Mei Group's approval. As at balance sheet date, RMB14.9 million has been authorised by Yong Mei Group use in the construction of Anyang Jiulong's new methanol plant and RMB60 million was invested in a financial product (Note 6). The remaining restricted cash at bank of RMB25.1 million is excluded from cash and cash equivalents at end of the year.

See accompanying notes to financial statements.

(Expressed in Renminbi)

1 GENERAL

(a) The Company (Registration No. 200415416H) is incorporated in Singapore with its registered office at 8 Cross Street, #11-00 PWC Building, Singapore 048424 and its principal place of business at 3 Raffles Place, #05-01 Bharat Building, Singapore 048617. The Company is listed on the Singapore Exchange Securities Trading Limited. The financial statements are expressed in Renminbi ("RMB").

(b) The principal activity of the Company is that of investment holding. The principal activities of the subsidiaries are disclosed in Note 12 to the financial statements.

(c) The global financial and capital markets have experienced severe credit crunch and volatility. In the face of the challenging economic environment, the Group has reported a net loss attributable to the Company's shareholders amounting to RMB50,819,000 for the financial year ended December 31, 2008. As of that date, the Group's current liabilities exceeded its current assets by RMB14,196,000. Management considers that the outlook presents significant challenges in terms of sales volume and pricing as well as input costs. Management has instituted measures to preserve cash and secure additional finance. These circumstances create material uncertainties over future trading results and cash flows.

(d) In August 2008, a PRC state-owned enterprise, Yong Cheng Coal & Electric Group Limited ("Yong Mei Group"), placed a deposit of RMB100 million with a subsidiary, Anyang Jiulong Chemical Co., Ltd ("Anyang Jiulong"), as part of a total committed investment of RMB200 million to acquire a 32.15% strategic stake in the subsidiary. The completion of Yong Mei Group's investment in Anyang Jiulong is subject to local governmental approval. The proceeds received was recorded in Anyang Jiulong's books, with a corresponding liability due from Anyang Jiulong to Yong Mei Group as detailed in Note 17.

The construction of Anyang Jiulong's new methanol plant is expected to be completed by end of 2009. Management recognises the importance of Yong Mei Group's investment in Anyang Jiulong and believes the remaining capital injection by Yong Mei Group to be forthcoming as it will provide the necessary funding for the completion of the construction of the new plant. Should this additional capital injection by Yong Mei Group not materialise, the progress of the construction of the new methanol plant maybe adversely affected.

(e) As described in Note 18 to the financial statements, the Group has outstanding short-term bank loans amounting to RMB68,900,000. These loans are repayable and subject to renewal during year 2009. The Group will open renewal negotiations with the banks in due course and has at this stage not sought any written commitment that these short-term facilities will be renewed.

(f) As at the date of authorisation for issue of the accompanying financial statements, management has:

(1) held discussion with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms; and

1 GENERAL (Cont'd)

(2) held regular discussions with the management of Yong Mei Group and no matters have been drawn to its attention to suggest that the necessary local governmental approval and additional capital injection described above may not be obtained or that Yong Mei Group has any intention of claiming the deposit from the subsidiary.

After considering the above uncertainties and measures taken, management believes that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, the Group continues to adopt the going concern assumption in preparing the financial statements for the current year.

The accompanying financial statements did not include any adjustments relating to the realisation and classification of asset and liability amount that may be necessary if the Group were unable to continue as a going concern. Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised other than in the amounts at which they are currently recorded in the balance sheets. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. No adjustments have been made in the accompanying financial statements in respect of these.

The consolidated financial statements of the Group and balance sheet and statement of changes in equity of the Company for year ended December 31, 2008 were authorised for issue by the Board of Directors on April 2, 2009.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) BASIS OF ACCOUNTING – The financial statements have been prepared in accordance with the historical cost convention except for the revaluation of financial instruments and have been drawn up in accordance with the provisions of the Singapore Companies Act and Singapore Financial Reporting Standards ("FRS").

In the current financial year, the Group and the Company have adopted all the new and revised FRSs and Interpretations of FRS ("INT FRS") that are relevant to its operations and effective for annual periods beginning on or after January 1, 2008. The adoption of these new/revised FRSs and INT FRSs does not result in changes to the Group's and Company's accounting policies and has no material effect on the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following FRS that are relevant to the Group and the Company were issued but not effective:

FRS 1	–	Presentation of Financial Statements (Revised)
FRS 23	–	Borrowing Costs (Revised)
FRS 108	–	Operating Segments

Consequential amendments were also made to various standards as a result of these new/revised standards.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Management anticipates that the adoption of FRSs and amendments to FRS in future periods will not have a material impact on the financial statements of the group and of the company in the period of their initial adoption except for the following:

FRS 1 – *Presentation of Financial Statements (Revised)*

FRS 1 (Revised) will be effective for annual periods beginning on or after January 1, 2009, and will change the basis for presentation and structure of the financial statements. It does not change the recognition, measurement or disclosure of specific transactions and other events required by other FRSs.

FRS 108 – *Operating Segments*

FRS 108 will be effective for annual financial statements beginning on or after January 1, 2009 and supersedes FRS 14 – *Segment Reporting*. FRS 108 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, FRS 14 requires an entity to identify two sets of segments (business and geographical), using a risks and rewards approach, with the entity's 'system of internal financial reporting to key management personnel' serving only as the starting point for the identification of such segments. As a result, following the adoption of FRS 108, the identification of the group's reportable segments may change. However, based on its preliminary assessment, management does not expect the Group reporting segment to change with the adoption of FRS 108.

(b) BASIS OF CONSOLIDATION – The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination (see below) and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover its share of those losses.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

In the Company's financial statements, investments in subsidiaries are carried at cost less any impairment in net recoverable value that has been recognised in the profit and loss statement.

(c) BUSINESS COMBINATIONS – The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under *FRS 103 Business Combinations* are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with *FRS 105 Non-Current Assets Held for Sale and Discontinued Operations*, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the consolidated profit and loss statement.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(d) FINANCIAL INSTRUMENTS – Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument, or where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial instruments "at fair value through profit or loss".

Financial assets

Loans and receivables

Trade and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as "Loan and receivables". These are measured at amortised cost using the effective interest method less impairment. Interest is recognised by applying the effective interest rate method, except for short-term receivables when the recognition of interest would be immaterial.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Cash and bank balances

Cash and bank balances comprise cash on hand and demand deposits and are subject to an insignificant risk of changes in value.

Financial assets at fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL where the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and FRS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in the profit and loss statement. The net gain or loss recognised in the profit and loss statement incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 4.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables where the carrying amount is reduced through the use of an allowance account. When a trade or other receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit and loss statement. Changes in the carrying amount of the allowance account are recognised in profit and loss statement.

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 loss was recognised, the previously recognised impairment loss is reversed through profit and loss statement to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the group neither transfers nor retains substantially all the risk and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the assets and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Financial liabilities and equity instruments

Classification as debt or equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Trade and other payables are initially measured at fair value, net of transaction costs, and are subsequently measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

Interest-bearing bank loans are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the group's accounting policy for borrowing costs (see below).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Derecognition of financial liabilities

The group derecognises financial liabilities when, and only when, the group's obligations are discharged, cancelled or expired.

(e) LEASES – Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such as incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(f) INVENTORIES – Inventories are measured at the lower of cost (weighted average method) and net realisable value. Costs comprise direct material costs and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

(g) LAND USE RIGHTS – The prepayment made on acquiring a land use right in the PRC represents prepaid lease payments and it is accounted for as an operating lease. The prepaid lease payment is released to the profit and loss statement over the shorter of remaining operation period or leasing period using the straight-line method. The amortisation period and method are reviewed at each financial year end.

(h) PROPERTY, PLANT AND EQUIPMENT – Property, plant and equipment are carried at cost, less accumulated depreciation and any impairment loss where the recoverable amount of the asset is estimated to be lower than its carrying amount.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Properties in the course of construction for production, rental or administrative purposes, or for purposes not yet determined, are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of the assets over their estimated useful lives, using the straight-line method, as follows:

Buildings	–	15 to 40 years
Machinery and equipment	–	5 to 28 years
Motor vehicles	–	8 years

No depreciation is provided on construction-in-progress.

Fully depreciated assets are retained in the financial statements until they are no longer in use.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amounts of the asset and is recognised in the profit and loss statement.

(i) GOODWILL – Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit and loss statement on disposal.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(j) IMPAIRMENT OF TANGIBLE ASSETS – At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. 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.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss statement.

(k) PROVISIONS – Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(l) GOVERNMENT GRANTS – Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and the grants will be received. Government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the balance sheet and transferred to profit and loss statement on a systematic and rational basis over the useful lives of the related assets.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Other government grants are recognised as income over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit and loss statement in the period in which they become receivable.

(m) REVENUE RECOGNITION – Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowance.

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- The Group retains neither continuing managerial involvement to degree usually associated with ownership nor effective control over the goods sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Rental income is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(n) BORROWING COSTS – Borrowing costs directly attributable to the acquisitions, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in the profit and loss statement in the period in which they are incurred.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(o) RETIREMENT BENEFIT COSTS – Payments to defined contribution retirement benefit plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes such as the Singapore Central Provident Fund and state schemes where the Group's operations are located, are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

(p) EMPLOYEE LEAVE ENTITLEMENT – Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

(q) INCOME TAX – Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the profit and loss statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are not taxable or tax deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted in countries where the Company and its subsidiaries operate by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to profit and loss statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in the profit and loss statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

(r) FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION – The individual financial statements of each Group entity are measured and presented in the currency of the primary economic environment in which the entity operates (its functional currency). The functional currency of the Company is Singapore dollars. The consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company are presented in Renminbi, which is the functional currency of the subsidiaries in the People's Republic of China, and the presentation currency for the financial statements and the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing on the date of the transaction. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on retranslation of monetary items are included in the profit and loss statement for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in the profit and loss statement for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements of the Group and the balance sheet of the Company, the assets and liabilities are expressed in Renminbi using exchange rates prevailing on the balance sheet date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the profit and loss statement in the period in which the foreign operation is disposed of.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities (including monetary items that, in substance, form part of the net investment in foreign entities), and of borrowings and other currency instruments designated as hedges of such investments, are taken to the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(s) RESERVE FUND – Pursuant to relevant laws and regulations in the PRC applicable to foreign investments enterprises and the Articles of Association of the PRC subsidiaries, the subsidiaries are required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to reserve fund at a rate as determined by the Board of Directors. The reserve fund may be used to make up losses incurred and, subject to the approval from the relevant government authority, to increase capital of the subsidiary for expansion of operations.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

(i) Critical judgements in applying the Group's accounting policies

Management has concluded that the combination of circumstances brought about by the severe credit crunch and volatility experienced by global financial and capital markets and the deteriorating economic conditions resulted in an operating loss to the Group for the year ended December 31, 2008.

As described in Note 1 to the financial statements, according to its judgement, management believes that the Group has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis in preparing the annual report and financial statements.

(ii) 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.

Depreciation and impairment of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The determination of the useful lives and residual values involve management's estimation. The Group assesses annually the residual value and the useful life of the property, plant and equipment and if the expectation differs from the original estimate, such difference may impact the depreciation in the year the estimate is changed and the future period.

The Group assesses annually whether property, plant and equipment have any indication of impairment in accordance with the accounting policy. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations require the use of judgement and estimates. The carrying amounts of the Group's property, plant and equipment as at balance sheet date are RMB829.4 million (2007: RMB684.0 million) after an impairment loss of RMB27.0 million (2007: RMB NIL) was recognised during the financial year. Details of the impairment loss calculation are disclosed in Note 11 to the financial statements.

3 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Cont'd)

(ii) Key sources of estimation uncertainty (Cont'd)

Allowances for inventories

Management determines whether an allowance is required for any shortfall in net realisable value of inventories by reviewing the inventory listing on a periodic basis. The review involves a comparison of the carrying value of the inventory items with the respective net realisable value as well as the forecasted demand for the inventories. Arising from the review, management sets up the necessary allowance for any shortfall in the net realisable value of the inventories which is the market price at end of the review period. The carrying amounts of the Group's inventories as at balance sheet date are RMB43.9 million (2007: RMB18.0 million) after an allowance of RMB16.1 million (2007: RMB NIL) was recognised during the financial year. Details of the allowance for inventories are disclosed in Note 9 to the financial statements.

Impairment in investment in subsidiaries

Determining whether investments in subsidiaries are impaired requires an estimation of the value in use of those investments. The value-in-use calculation requires the Company to estimate the future cash-flows expected from these investment and an appropriate discount rate in order to calculate the present value of the future cash-flows. Management has evaluated the recoverability of the investment based on such estimates and is confident that the allowance for impairment, where necessary, is adequate. The carrying amounts of the Company's cost of investment in subsidiaries as at balance sheet date are RMB487.5 million (2007: RMB253.2 million) after an impairment loss of RMB27.0 million (2007: RMB NIL) was recognised during the financial year. Details of the impairment loss calculation are disclosed in Note 12 to the financial statements.

Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade and other receivables. Allowances are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade and other receivables and doubtful debts expenses in the period in which such estimate has been changed.

Impairment of goodwill on consolidation

Determining whether goodwill on consolidation is impaired requires an estimation of the value in use of the cash-generating units to which such goodwill has been allocated. The value-in-use calculation requires the Group to estimate the future cash-flows expected from the cash-generating units and an appropriate discount rate in order to calculate the present value of the future cash-flows. Management has evaluated the recoverability of the goodwill on consolidation based on such estimates and is confident that the carrying amount of such goodwill will be recovered in full. The carrying amount of goodwill on consolidation at December 31, 2008 was RMB523,000 (2007: RMB523,000).

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT

(a) Categories of financial instruments

The following table sets out the financial instruments as at the balance sheet date:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Loans and receivables (including cash and cash equivalents)	**214,057**	314,451	**81,648**	201,851
Held-for-trading investment	**60,000**	–	**–**	–
Financial liabilities				
Amortised cost:				
Trade and other payables	**291,221**	258,564	**2,358**	6,834
Bank loans	**138,900**	143,000	**–**	–
Total	**430,121**	401,564	**2,358**	6,834

(b) Financial risk management policies and objectives

Management monitors and manages the financial risks relating to the operations of the Group to minimise adverse potential effects of financial performance. These risks include market risk (including currency risk and interest rate risk), credit risk, liquidity risk and cash flow interest rate risk.

(i) Foreign exchange risk management

The Group does not face significant financial risks of changes in foreign currency rates as the Company and its subsidiaries transact mainly in their respective functional currencies. At the reporting date, the monetary assets and monetary liabilities denominated in currencies other than the respective entities' functional currencies are insignificant.

The Company has a number of investments in foreign subsidiaries, whose net assets are exposed to currency translation risk. The Group does not currently designate its foreign currency denominated debt as a hedging instrument for the purpose of hedging the translation of its foreign operations.

Foreign currency sensitivity

The following table details the sensitivity to a 5% increase in the Renminbi ("RMB") against the relevant foreign currency of the entity. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The sensitivity analysis shown below only includes the cost of investment of the Company and loans to foreign operations within the Group where they gave rise to an impact of the Company's and Group's equity respectively.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Financial risk management policies and objectives (Cont'd)

(i) Foreign exchange risk management (Cont'd)

	RMB impact	
	2008	2007
	RMB'000	RMB'000
Group		
Credit to other equity	**–**	3,623 (i)
Company		
Credit to other equity	**24,373**	12,661 (ii)

(i) This is mainly attributable to the exposure to outstanding Singapore dollar loans given by the Company to its PRC subsidiaries. The loans were fully converted to share capital of the subsidiaries during the year.

(ii) This is attributable to the exposure based on 5% of the cost of investment in subsidiaries of the Company.

(ii) Interest rate risk management

The Group is exposed to interest rate risks due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings which carry at prevailing market interest rates.

The Group's interest rate risks relates primarily to its variable rate bank borrowings which are subject to negotiation on an annual basis (see Note 18). The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, management will consider hedging significant interest rate exposure should the need arise.

The Group's exposure to interest rates on financial liabilities are detailed in the liquidity risk management set out below.

Interest rate sensitivity

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the possible change in interest rates.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Financial risk management policies and objectives (Cont'd)

(ii) Interest rate risk management (Cont'd)

Interest rate sensitivity (Cont'd)

If interest rate had been 100 basis points higher/lower and all other variables were held constant. The Group's profit for the year ended December 31, 2008 would decrease/increase by RMB1,389,000 (2007: RMB1,430,000).

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable rate bank loans.

(iii) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by the counterparty limits that are reviewed and approved by the risk management committee annually.

Trade receivables consist of a large number of customers, spread across and diverse industries. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit guarantee insurance cover is purchased.

The Group does not have any significant credit risk exposure to any single counterparty or any Group of counterparties having similar characteristics. The credit risk on liquid funds and the held-for-trading investment is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net off any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

Further details of credit risks on trade receivables are disclosed in Note 7.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Financial risk management policies and objectives (Cont'd)

(iv) Liquidity risk management

The Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. Management monitors the utilisation of bank borrowings and ensures compliance with loan covenants. This strategy has not changed from prior periods.

Management has instituted measures to preserve cash and secure additional finance as described in detail in Note 1.

With the above approach, management has a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Liquidity and interest risk analyses

Non-derivative financial assets

The following table details the expected maturity for non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets except where the Group and the Company anticipates that the cash flow will occur in a different period.

	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2 to 5 years**	**Total**
	%	RMB'000	RMB'000	RMB'000
Group				
2008				
Non-interest bearing	N/A	231,480	–	231,480
Fixed interest rate	1.28	42,577	–	42,577
2007				
Non-interest bearing	N/A	177,736	–	177,736
Fixed interest rate	2.54	136,715	–	136,715
Company				
2008				
Non-interest bearing	N/A	39,071	–	39,071
Fixed interest rate	1.28	42,577	–	42,577
2007				
Non-interest bearing	N/A	1,260	72,463	73,723
Fixed interest rate	2.24	128,128	–	128,128

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Financial risk management policies and objectives (Cont'd)

(iv) Liquidity risk management (Cont'd)

Liquidity and interest risk analyses (Cont'd)

Non-derivative financial liabilities

The following table details the remaining contractual maturity for non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and Company can be required to pay.

The table includes both interest and principal cash flows.

	Weighted average effective interest rate	**On demand or within 1 year**	**Within 2 to 5 years**	**Total**
	%	RMB'000	RMB'000	RMB'000
Group				
2008				
Non-interest bearing	N/A	291,221	–	291,221
Variable interest rate	8.530	68,900	70,000	138,900
2007				
Non-interest bearing	N/A	258,564	–	258,564
Variable interest rate	7.020	73,000	70,000	143,000
Company				
2008				
Non-interest bearing	N/A	2,358	–	2,358
2007				
Non-interest bearing	N/A	6,834	–	6,834

(v) Fair value of financial assets and financial liabilities

The carrying amounts of cash and bank balances, trade and other current receivables and payables, provisions and other liabilities approximate their respective fair values due to the relatively short-term maturity of these financial instruments. The fair values of other classes of financial assets and liabilities are disclosed in the respective notes to financial statements.

4 FINANCIAL INSTRUMENTS, FINANCIAL RISKS AND CAPITAL RISKS MANAGEMENT (Cont'd)

(b) Financial risk management policies and objectives (Cont'd)

(v) Fair value of financial assets and financial liabilities (Cont'd)

The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively.

Management considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

(c) Capital risk management policies and objectives

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt, which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the Company, comprising paid up capital, reserves and accumulated profits.

The Group's management reviews the capital structure on an on-going basis. As a part of this review, management considers the cost of capital and the risks associated with each class of capital. Based on recommendations of management, the Group balances its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issuance of new debt or the redemption of existing debt.

The Group's overall strategy remains unchanged from 2007.

5 CASH AND BANK BALANCES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash on hand and at bank	**74,177**	17,384	**38,201**	916
Fixed deposits	**42,577**	136,715	**42,577**	128,128
Cash and bank balances	**116,754**	154,099	**80,778**	129,044
Restricted cash	**(25,100)**	–	**–**	–
Pledged bank deposits	**–**	(8,587)	**–**	–
Cash and cash equivalents	**91,654**	145,512	**80,778**	129,044

Fixed deposits placed with financial institutions earn effective interest ranging between 0.39% to 1.50% (2007: 2.19% to 2.29%) per annum with maturity dates of three months or less. The carrying amount of these assets approximates their fair value.

As at balance sheet date, RMB25,100,000 of the cash at bank was restricted for use. Please see "Consolidated Cash Flow Statement" for details.

In 2007, bank deposits amounting to RMB8,587,000 were pledged to certain banks for the Group to issue trade bills payable (Note 16) for payments to its suppliers. The pledged banks deposits carried fixed interest rate at 3.42% per annum. It was released upon the settlement of the trade bills payable in 2008.

The cash and bank balances that are denominated in the functional currencies of the respective entities are as follows:

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
United States dollars	**126**	102	**126**	102

6 HELD-FOR-TRADING INVESTMENT

In December 2008, the Group purchased RMB60,000,000 of unquoted financial product from a local bank in the People's Republic of China. This financial product does not have any maturity date, has no fixed returns and can be liquidated on demand.

Management determined that as at the balance sheet date, the fair value of the investment approximated its cost. Subsequent to year end, the Group has liquidated all the held for trading investment without any significant gain or loss.

7 TRADE RECEIVABLES

	Group	
	2008	2007
	RMB'000	RMB'000
Trade receivables – outside parties	**24,679**	42,830
Trade bills receivable	**67,882**	112,782
Total	**92,561**	155,612
Less: Impairment allowance	**(178)**	(145)
Net	**92,383**	155,467

Movement in the above impairment allowance:

	Group	
	2008	2007
	RMB'000	RMB'000
At beginning of year	**145**	131
Charge to profit and loss	**33**	14
At end of year	**178**	145

All the trade receivables of the Group are denominated in the functional currencies of the respective entities.

The average credit period on sales of goods is 90 days (2007: 60 days). No interest is charged on the overdue trade receivables.

Included in the Group's trade receivables balance are debtors with a carrying amount of RMB17,673,000 (2007: RMB2,801,000) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 180 days (2007: 90 days).

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. Accordingly, management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

7 TRADE RECEIVABLES (Cont'd)

The table below is an analysis of trade receivables as at balance sheet date:

	Group	
	2008	2007
	RMB'000	RMB'000
Not past due and not impaired	**74,710**	152,666
Past due but not impaired (i)	**17,673**	2,801
	92,383	155,467
Impaired receivables – collectively assessed (ii)	**178**	145
Less: Provision for impairment	**(178)**	(145)
	–	–
Net	**92,383**	155,467

(i) Ageing of receivables that are past due but not impaired:

	Group	
	2008	2007
	RMB'000	RMB'000
Past due < 90 days	**3,994**	2,767
Past due 90 days to 180 days	**5,304**	34
Past due >180 days	**8,375**	–
	17,673	2,801

(ii) These amounts are stated before any deduction for impairment losses.

8 OTHER RECEIVABLES AND PREPAYMENTS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance payments to suppliers:				
Outside parties	**16,969**	15,284	**–**	–
A former related party (Note 32)	**6,667**	6,534	**–**	–
Value-added tax recoverable	**4,120**	2,951	**–**	–
Prepayments	**4,601**	529	**282**	128
Interest receivable:				
Fixed deposit	**4**	239	**4**	239
Loan to subsidiary	**–**	–	**774**	–
Others	**796**	1,695	**92**	105
Total	**33,157**	27,232	**1,152**	472

All the other receivables of the Group are denominated in the functional currencies of the respective entities.

9 INVENTORIES

	Group	
	2008	2007
	RMB'000	RMB'000
Raw materials	**28,180**	10,440
Finished goods	**15,697**	7,605
Total	**43,877**	18,045
Movement in allowance for inventories:		
Charge to profit and loss and balance at end of year	**16,092**	–

During the financial year, the cost of inventories recognised as an expense included an amount of RMB13,199,000 and RMB2,893,000 (2007: Nil) in respect of the write down of raw materials and finished goods to their net realisable value respectively.

10 LAND USE RIGHTS

	Group	
	2008	2007
	RMB'000	RMB'000
Carrying value as at January 1	**62,085**	5,681
Additions	**2,428**	56,753
Refund from tax authorities	**(6,695)**	–
Amortisation during the year	**(3,164)**	(349)
Carrying value as at December 31	**54,654**	62,085
Presentation in balance sheet:		
Current assets	**3,208**	3,245
Non-current assets	**51,446**	58,840
Total	**54,654**	62,085

The amount represents the prepayment of leases for land situated in the PRC, which is amortised over the shorter of remaining operation period or leasing period ranging from 14 to 50 years, using the straight-line method.

The refund from tax authorities relates to the excess value-added tax payments made by certain subsidiaries in 2007.

11 PROPERTY, PLANT AND EQUIPMENT

	Buildings	Machinery and equipment	Motor vehicles	Construction-in-progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
Cost:					
At January 1, 2007	19,874	104,240	3,682	69,949	197,745
Additions	–	1,877	106	521,591	523,574
Disposals	–	(12)	–	–	(12)
Reclassification	80,824	343,209	–	(424,033)	–
At December 31, 2007	100,698	449,314	3,788	167,507	721,307
Adjustment (Note A)	–	(6,021)	–	–	(6,021)
Additions	1,578	5,406	3,009	204,137	214,130
Disposals	–	(98)	–	–	(98)
Reclassification	5,954	–	–	(5,954)	–
Translation difference	–	(88)	–	–	(88)
At December 31, 2008	108,230	448,513	6,797	365,690	929,230
Accumulated depreciation:					
At January 1, 2007	2,225	18,286	703	–	21,214
Depreciation	1,386	14,290	448	–	16,124
Disposals	–	(3)	–	–	(3)
At December 31, 2007	3,611	32,573	1,151	–	37,335
Depreciation	3,213	31,780	548	–	35,541
Disposals	–	(48)	–	–	(48)
Translation difference	–	(47)	–	–	(47)
At December 31, 2008	6,824	64,258	1,699	–	72,781
Accumulated impairment:					
Impairment loss recognised during the year and balance as at December 31, 2008	–	27,000	–	–	27,000
Carrying amount:					
At December 31, 2008	101,406	357,255	5,098	365,690	829,449
At December 31, 2007	97,087	416,741	2,637	167,507	683,972

During 2008, borrowing costs of RMB871,000 (2007: RMB2,464,000) has been included in the cost of qualifying assets.

At balance sheet date, machinery and equipment with carrying value of RMB125,282,000 (2007: RMB89,375,000) are pledged to secure banking facilities and loans granted to the Group (Note 18).

11 PROPERTY, PLANT AND EQUIPMENT (Cont'd)

At balance sheet date, the Group carried out a review of the recoverable amount of certain machinery and equipment of a subsidiary, Anyang Jiuyang Chemical Co., Ltd ("Anyang Jiuyang"). Management determined that indicators of impairment existed at the balance sheet date as the machinery and equipment were deployed in the Group's loss-making DMF segment (Note 31).

The review led to the recognition of an impairment loss of RMB27,000,000 that has been recognised in profit and loss statement for the financial year. The recoverable amount of the relevant assets was determined on the basis of their value in use, using a discounted rate of 10.9% which approximates the Group's weighted average cost of capital. In determining the value-in-use, the future benefits expected from the machinery and equipment are considered in forecasting cash flows. The Group did not apply a fixed growth rate in forecasting the future cash flows but determined the future benefits based on the expected operating capacity utilisation of the machineries as well as the anticipated future selling price of the finished goods manufactured by the machineries.

Note A:
This amount relates to a refund from tax authority in May 2008 as excess value-added tax payments were made by a subsidiary in 2007. No reversal was made to the accumulated depreciation and accumulated profits as of May 2008 as the amount was determined to be insignificant.

	Machinery and equipment
	RMB'000
Company	
Cost:	
At January 1, 2007	761
Additions	16
At December 31, 2007	777
Translation difference	(88)
At December 31, 2008	689
Accumulated depreciation:	
At January 1, 2007	104
Depreciation	158
At December 31, 2007	262
Depreciation	155
Translation difference	(47)
At December 31, 2008	370
Carrying amount:	
At December 31, 2008	319
At December 31, 2007	515

12 INVESTMENT IN SUBSIDIARIES

	Company	
	2008	2007
	RMB'000	RMB'000
Unquoted share capital, at cost	**514,460**	228,097
Impairment loss	**(27,000)**	–
Loan receivable – deemed capital contribution (Note 13)	**–**	25,140
Total	**487,460**	253,237

Details of the subsidiaries are as follows:

Subsidiary	Cost of investment		Effective equity interest and voting power held		Principal activities (Place of establishment operation)
	2008	2007	**2008**	2007	
	RMB'000	RMB'000	**%**	%	
Anyang Jiutian Fine Chemical Co., Ltd	**90,336**	54,684	**100**	100	Production, sale and service of industrial methanol, methylamine, dimethylformamide (DMF) and gas (People's Republic of China)
Anyang Jiuyang Chemical Co., Ltd	**120,024**	69,638	**100**	100	Research and development, manufacturing and sales of methylamine, DMF, polyurethane and downstream products (People's Republic of China)
Anyang Jiulong Chemical Co., Ltd*	**301,112**	100,787	**75.5**	51	Production and sale of methanol in PRC (People's Republic of China)
Changzhou Jiutian Xiean Chemical Co., Ltd	**2,988**	2,988	**60**	60	Sale of methylamine, DMF, polyurethane and downstream products (People's Republic of China)
Total	**514,460**	228,097			

* Production facilities still under construction as at December 31, 2008.

The subsidiaries are audited by Deloitte Touche Tohmatsu Certified Public Accountants Ltd – Beijing Branch, which is located at 8/F Office Tower W2, The Towers, Oriental Plaza, 1 East Chang An Avenue, Beijing 100738, PRC for consolidation purpose.

During the year, the Company acquired an additional 24.5% interest in Anyang Jiulong Chemical Co. Ltd at its carrying amount, approximating fair value, for a consideration of RMB200,325,000. As such, there was no goodwill arising from this acquisition.

12 INVESTMENT IN SUBSIDIARIES (Cont'd)

As at December 31, 2008, in conjunction with management's impairment assessment carried out on the Group's property, plant and equipment described in Note 11, the Company's cost of investment in Anyang Jiuyang Chemical Co., Ltd was also determined to exceed its recoverable amount by RMB27,000,000. Accordingly, an impairment loss of RMB27,000,000 on the cost of investment was recognised in the Company's profit and loss statement.

13 LOANS RECEIVABLE FROM SUBSIDIARIES

In 2006 and 2007, these interest-free loans were discounted at the prevailing interest rates ranging from 6.48% to 7.38% at inception and based on the expected repayment within the next 5 years to derive the fair value of these loans. The cumulative difference of S$4,999,000, equivalent to RMB25,140,000 between the fair value of the loans granted and the principal amount of the loans was recognised as a deemed capital contribution to the subsidiary (Note 12).

During the financial year, the interest-free loans provided by the Company to certain subsidiaries were converted into the share capital of the respective subsidiaries.

	In original currency		**RMB equivalent**	
	2008	2007	**2008**	2007
	S$'000	S$'000	**RMB'000**	RMB'000
Company				
Original loan amount	**–**	18,590	**–**	93,511
Fair value at inception				
At January 1	**13,591**	2,919	**68,371**	14,647
Additions	**–**	10,672	**–**	53,924
Converted to share capital of subsidiaries	**(13,591)**	–	**(68,371)**	–
Effect of translation	**–**	–	**–**	(200)
At December 31	**–**	13,591	**–**	68,371
Interest receivable				
At January 1	**813**	95	**4,092**	475
Interest income during the year	**915**	718	**4,118**	3,627
Amount written off	**(1,728)**	–	**(8,210)**	–
Effect of translation	**–**	–	**–**	(10)
At December 31	**–**	813	**–**	4,092
Amortised cost				
At December 31 (shown as non-current)	**–**	14,404	**–**	72,463

14 DEFERRED TAX ASSETS

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets	**2,648**	1,037	**–**	–

The following are the major deferred assets recognised by the Group and movements thereon during the year:

	Accelerated accounting depreciation	**Pre-operating expenses**	**Deferred income**	**Allowance for inventories**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Group					
At January 1, 2007	690	99	264	–	1,053
Credit (Charge) to profit and loss (Note 27)	267	(49)	(10)	–	208
Effect of change in tax rate	(167)	–	(57)	–	(224)
At December 31, 2007	790	50	197	–	1,037
Credit (Charge) to profit and loss (Note 27)	273	(50)	(11)	1,399	1,611
At December 31, 2008	1,063	–	186	1,399	2,648

15 GOODWILL ON CONSOLIDATION

This represents goodwill on consolidation on the acquisition of Anyang Jiutian Fine Chemical Co., Ltd in 2004.

The Group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the cash generating units are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and expected changes to selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating units. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial forecasts approved by management for the next five years using an average discount rate of 10.9% (2007: 9.0%) and no rate of growth.

16 TRADE PAYABLES

	Group	
	2008	2007
	RMB'000	RMB'000
Outside parties	**65,070**	84,470
Trade bills payable	**–**	8,587
Customer advances	**2,263**	7,898
Due to a former related party (Note 32)	**19**	18,027
Total	**67,352**	118,982

The average credit period on purchases of goods is 120 days (2007: 120 days). No interest is charged on the outstanding trade payables balances.

All the trade payables of the Group are denominated in the functional currencies of the respective entities.

17 OTHER PAYABLES

	Group		Company	
	2008	2007	**2008**	2007
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance capital injection in subsidiary (Note 1d)	**100,000**	–	**–**	–
Payable for property, plant and equipment	**69,703**	128,860	**–**	–
Notes payable	**20,000**	–	**–**	–
Discounted notes receivables	**16,479**	–	**–**	–
Accruals	**19,094**	14,975	**2,358**	3,613
Security deposits received	**378**	–	**–**	–
Value added tax payables	**341**	2,665	**–**	–
Interest payable	**125**	562	**–**	–
Due to a former related party (Note 32)	**12**	418	**–**	–
Subsidiary (Note 12)	**–**	–	**–**	3,221
Total	**226,132**	147,480	**2,358**	6,834

In 2007, the amount due to subsidiary was non-trade in nature, unsecured, interest-free and repayable on demand. The amount was fully repaid during the year.

The notes receivables were discounted to banks at a rate ranging from 4.08% to 4.92% per annum.

18 BANK LOANS

	Group	
	2008	2007
	RMB'000	RMB'000
Loan A (unsecured)	**30,000**	20,000
Loan B (secured)	**–**	14,100
Loan C (secured)	**38,900**	38,900
Loan D (secured)	**70,000**	70,000
Total	**138,900**	143,000
Presentation in balance sheet:		
Current liability	**68,900**	73,000
Non-current liability	**70,000**	70,000
Total	**138,900**	143,000

(a) Loans A bears floating interest rate ranging from 7.07% to 8.22% (2007: 6.57% to 7.47%) per annum. Loan A is guaranteed by a former related party (Note 32) and a third party.

(b) Loan B bore a fixed interest of 7.128% per annum and the loan period was six months. Loan B was secured by a total trade bills of RMB16,602,000. The loan was fully repaid in June 2008.

(c) Loan C bears fixed interest ranging from 6.79% to 7.47% (2007: 6.57% to 7.47%) per annum. The loan is secured on plant and equipment of certain subsidiaries.

(d) Loan D is a four-year term loan and is repayable in 3 tranches from 2010 to 2011. It is jointly guaranteed by a former related party (Note 32), a subsidiary and 3 directors of a subsidiary. The loan is secured on certain property, plant and equipment. The bank loan bears floating interest of 8.51% (2007: 7.02%) per annum, which is subject to negotiation on an annual basis in March each year. The loan carries an interest at 10% above the lending rate announced by the central bank of China per annum.

(e) Management considers the carrying amount of the bank loans to approximate its fair value.

(f) At December 31, 2008 and 2007, there were no undrawn committed borrowing facilities.

19 DEFERRED INCOME

	Group	
	2008	2007
	RMB'000	RMB'000
At beginning of year	**841**	906
Credit to profit and loss	**(65)**	(65)
At end of year	**776**	841

The amount represents a government grant received from the local municipal government for financing a technology improvement project of a subsidiary. The grant is amortised to the profit and loss statement on a straight line basis over the expected useful lives of the related assets.

20 SHARE CAPITAL

	Group and Company		Group and Company	
	2008	2007	**2008**	2007
	Number of ordinary shares		**RMB'000**	RMB'000
	'000	'000		
Issued and paid up capital:				
At beginning of year	**1,379,544**	252,929	**439,291**	200,662
Share placements	**275,900**	22,980	**184,655**	238,629
Increase arising from subdivision	**–**	1,103,635	**–**	–
At end of year	**1,655,444**	1,379,544	**623,946**	439,291

Fully paid ordinary shares, which have no par value, carry one vote per share and carry a right to dividend.

In March 2007, pursuant to placement agreements, the Company issued 22,980,000 new ordinary shares at S$2.07 per share.

In September 2007, the Company subdivided every one ordinary share into five ordinary shares, thereby increasing the numbers of issued shares from 275,908,800 to 1,379,544,000.

In June 2008, pursuant to placement agreements, the Company issued 275,900,000 new ordinary shares at S$0.135 per share.

21 RESERVE FUND

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of the PRC subsidiaries, the subsidiaries are required to make appropriation from profit after taxation as reported in the PRC statutory financial statements to reserve fund at a rate as determined by the Board of Directors. In the current year, the profit making subsidiaries transferred 10% (2007: 10%) of profit after taxation calculated in accordance with PRC law and regulations, amounting to RMB 5,543,000 (2007: RMB8,133,000) to the reserve fund.

21 RESERVE FUND (Cont'd)

The reserve fund may be used to make up losses incurred and, subject to the approval from the relevant government authority, to increase capital of the PRC subsidiaries for the expansion of operations.

22 REVENUE

This represents the amount received or receivable from the sales of goods, net of sales return and sales tax.

23 OTHER INCOME

	Group	
	2008	2007
	RMB'000	RMB'000
Interest income	**1,142**	4,385
Rental income	**198**	254
Gain on sale of construction materials to:		
– former related party (Note 32)	**240**	–
– third party	**1,924**	–
Insurance claim	**81**	62
Government grant	**65**	65
Gain on disposal of property, plant and equipment	**723**	–
Total	**4,373**	4,766

Rental income is shown net of its associated expenses of RMB360,000 (2007: RMB356,000).

24 OTHER EXPENSES

	Group	
	2008	2007
	RMB'000	RMB'000
Under provision of value-added tax ("VAT") for prior years	**2,338**	–
Foreign exchange loss	**1,444**	–
Others	**135**	–
Total	**3,917**	–

During the year, the PRC tax authorities imposed back charges and related penalties on a subsidiary in relation to a dispute in the tax treatment of VAT on certain third party logistic costs for the delivery of goods to customers in 2006 and 2007.

25 FINANCE COSTS

This relates to interest expense on bank loans.

26 PROFIT BEFORE INCOME TAX

(a) This item includes the following charges (credits):

	Group	
	2008	2007
	RMB'000	RMB'000
Cost of inventories sold	**185,185**	191,170
Directors' remuneration	**5,262**	4,690
(Gain) Loss on disposal of property, plant and equipment	**(723)**	9
Amortisation of land use rights (Note 10)	**3,164**	349
Non-audit fees paid to auditors	**–**	–

(b) The breakdown of employees benefits expense (excluding directors' remuneration) are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Salaries and wages	**16,008**	13,645
Cost of defined contribution plans	**3,636**	1,164
Staff welfare and benefits	**518**	1,296
Total employee benefits expense	**20,162**	16,105

(c) The remuneration of directors and other members of key management during the year was as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Short-term benefits	**6,323**	5,740
Post-employment benefits	**116**	214
Other benefits	**8**	37
Total	**6,447**	5,991

27 INCOME TAX EXPENSE

	Group	
	2008	2007
	RMB'000	RMB'000
Current tax	**9,789**	15,225
Deferred tax (Note 14)	**(1,611)**	(208)
Effect of change in tax rate	**–**	224
	8,178	15,241

The income tax expense varied from the amount of income tax determined by applying the Singapore income tax rate of 18% (2007: 18%) to (loss) profit before income tax as a result of the following differences:

	Group	
	2008	2007
	RMB'000	RMB'000
(Loss) Profit before income tax	**(45,832)**	75,490
Income tax (benefit) expense at statutory rate of 18% (2007: 18%)	**(8,250)**	13,588
Effect of different tax rate of subsidiaries	**11,965**	12,080
Effect of tax concession of subsidiary	**(15,296)**	(16,121)
Effect of change in tax rate	**–**	224
Deferred tax assets not recognised	**22,377**	3,847
Non-(taxable) allowable items	**(2,618)**	1,623
Income tax expense	**8,178**	15,241

The Group has tax losses carryforwards available for offsetting against future taxable income as follows:

	2008	2007
	RMB'000	RMB'000
Amount at beginning of year	**11,878**	220
Arising during the year	**67,810**	11,658
Amount at year end	**79,688**	11,878
Deferred tax benefit on above not recorded	**26,711**	3,920

27 INCOME TAX EXPENSE (Cont'd)

No deferred tax asset has been recognised in respect of the above tax losses due to the unpredictability of future profit streams of the relevant subsidiaries.

Anyang Jiutian Fine Chemical Co., Ltd and Anyang Jiuyang Chemical Co., Ltd are wholly foreign-owned enterprise ("WFOE") whereas Anyang Jiulong Chemical Co., Ltd is a Sino-foreign Invested Enterprise. These three subsidiaries are governed by the Income Tax Law of the PRC Enterprises with Foreign Investment and Foreign Enterprises and various local income tax laws (the "FIE Income Tax Laws"). Under the FIE Income Tax Laws, foreign investment enterprises ("FIE") are generally subjected to income tax at a combined rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise is located in specially designated regions or cities for which more favorable effective rates apply. In addition, as a manufacturing-oriented FIE, the subsidiaries are also eligible to be exempted from PRC income tax for two years commencing from its first profit-making year of operations, after offsetting all unexpired tax losses brought forward from the previous years, and thereafter, entitled to a 50% relief from PRC income tax for the next three years.

For Anyang Jiutian Fine Chemical Co., Ltd, pursuant to the approval issued by Anyang, Long An State Tax Bureau, the subsidiary as a FIE is approved to be exempted from income tax for 2006 and 2005 and entitled to a 50% relief from income tax from 2007 to 2009.

For Anyang Jiuyang Chemical Co., Ltd, as it continues to be in a loss-making position for 2008, pursuant to the approval issued by Anyang, Long An State Tax Bureau, the income tax exemption period as a FIE will only take effect from the subsidiary's first profit making year.

For Anyang Jiulong Chemical Co., Ltd, as its production facilities are still under construction as at balance sheet date, pursuant to the approval issued by Anyang, Long An State Tax Bureau, the income tax exemption period as a FIE will only take effect from the subsidiary's first profit making year.

Changzhou Jiutian Xiean Chemical Co., Ltd is a Sino-foreign cooperative enterprise and it is governed by the Income Tax Law of the PRC Enterprises with Foreign Investment and Foreign Enterprises and various local income tax laws (the "FIE Income Tax Laws"). Under the FIE Income Tax Laws, foreign investment enterprises ("FIE") are generally subjected to income tax at a combined rate of 33% (30% state income taxes plus 3% local income taxes) on income as reported in their statutory financial statements after appropriate tax adjustments unless the enterprise is located in specially designated regions or cities for which more favorable effective rates apply. However, as it is not a manufacturing-oriented FIE, it is not eligible to enjoy the same tax exemption status as the other three subsidiaries mentioned above.

In March 2007, the PRC government announced a unified tax rate arrangement among different types of PRC entities which results in a reduction of income tax rate from 33% to 25% with effect from January 1, 2008. The subsidiaries, except for Changzhou Jiutian Xiean Chemical Co., Ltd, will continue to enjoy the tax exemption period until the expiration of the said period.

At the balance sheet date, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised is RMB53,647,000 (2007: RMB NIL). No liability has been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

28 (LOSS) EARNINGS PER SHARE

	Group	
	2008	2007
(Loss) Profit attributable to shareholders (RMB'000)	**(50,819)**	61,294
Weighted average number of ordinary shares ('000)	**1,530,502**	1,360,394
(Loss) Earnings per share (RMB cents)	**(3.32)**	4.51

There is no dilution as the Company does not have any share options or outstanding dilutive warrants.

29 OPERATING LEASE ARRANGEMENTS

	Group	
	2008	2007
	RMB'000	RMB'000
As Lessee		
Minimum lease payments under operating leases for rental of land and buildings	**249**	249

At the balance sheet date, commitments in respect of non-cancellable operating leases were as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	**249**	249
In the second to fifth year inclusive	**995**	995
After five years	**1,632**	1,881
Total	**2,876**	3,125

Operating lease payments represent rental payable by the Group for certain land and buildings leased from Anyang Chemical Industry Group Co., Ltd. Leases are negotiated for an average term of 14 years and rentals are fixed for an average of 14 years.

29 OPERATING LEASE ARRANGEMENTS (Cont'd)

As Lessor

For the financial year ended December 31, 2008, the Group leased out certain machinery with a carrying value of RMB1,808,000 (2007: RMB2,214,000) under operating leases to an unrelated individual. Rental income earned for the year was RMB558,000 (2007: RMB610,000). All of the machinery held has committed lessees for the next one year (2007: one year).

At the balance sheet date, the Group has contracted with lessees for the following future minimum lease payments as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Within one year	**138**	138
In the second to fifth year inclusive	**–**	–
Total	**138**	138

30 CAPITAL EXPENDITURE COMMITMENTS

		Group		Company	
		2008	2007	**2008**	2007
		RMB'000	RMB'000	**RMB'000**	RMB'000
(a)	*Investment*				
	Capital injection into subsidiaries	**–**	–	**286,363**	102,000
(b)	*Property, plant and equipment*				
	Contracted but not provided for	**159,623**	156,768	**–**	–

31 BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

The Group's operations are organised into the following operating divisions namely:

(1) Dimethylformamide ("DMF");
(2) Methanol; and
(3) Gas.

Segment revenue and expense: Segment revenue and expense are the operating revenue and expense reported in the Group's profit and loss statement that are directly attributable to a segment and the relevant portion of such revenue and expense that can be allocated on a reasonable basis to a segment.

Segment assets and liabilities: Segment assets include all operating assets used by a segment and consist principally of operating receivables, inventories and property, plant and equipment, net of allowances and provisions. Capital additions include the total cost incurred to acquire property, plant and equipment, and intangible assets directly attributable to the segment. Segment liabilities include all operating liabilities and consist principally of trade payables and other payables.

These divisions are the basis on which the Group reports its primary business segments information.

	DMF	Methanol	Gas	Total
	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2008				
REVENUE	234,318	12,213	5,955	252,486
RESULT				
Segment result	(20,137)	(4,198)	968	(23,367)
Unallocated expenses				(10,313)
Interest income				1,142
Finance costs				(13,294)
Loss before income tax				(45,832)
Income tax expense				(8,178)
Loss after income tax				(54,010)

31 BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

	DMF	Methanol	Gas	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Statement of Net Assets				
Assets:				
Segment assets	582,056	552,273	14,469	1,148,798
Unallocated assets				84,646
Consolidated total assets				1,233,444
Liabilities:				
Segment liabilities	164,288	125,633	1,138	291,059
Unallocated liabilities				143,291
Consolidated total liabilities				434,350

	DMF	Methanol	Gas	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2008					
OTHER INFORMATION					
Capital expenditure	13,008	203,381	169	–	216,558
Depreciation expense	33,210	720	1,456	155	35,541
Amortisation of land use rights	890	2,274	–	–	3,164
Allowance for inventories	16,092	–	–	–	16,092
Impairment on property, plant and equipment	27,000	–	–	–	27,000
Allowance for doubtful trade receivables	33	–	–	–	33

31 BUSINESS AND GEOGRAPHICAL SEGMENTS (Cont'd)

(a) Business segments (Cont'd)

	DMF	Methanol	Gas	Total
	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2007				
REVENUE	267,590	29,106	4,972	301,668
RESULT				
Segment result	73,864	10,982	(395)	84,451
Unallocated expenses				(8,265)
Interest income				4,385
Finance cost				(5,081)
Profit before income tax				75,490
Income tax expense				(15,241)
Profit after income tax				60,249
Statement of Net Assets				
Assets:				
Segment assets	729,183	228,026	13,660	970,869
Unallocated assets				131,591
Consolidated total assets				1,102,460
Liabilities:				
Segment liabilities	247,370	15,059	1,288	263,717
Unallocated liabilities				148,313
Consolidated total liabilities				412,030

	DMF	Methanol	Gas	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
December 31, 2007					
OTHER INFORMATION					
Capital expenditure	366,395	213,885	30	17	580,327
Depreciation expense	13,831	861	1,279	153	16,124
Amortisation of land use rights	331	15	3	–	349
Allowance for doubtful trade receivables	–	14	–	–	14

(b) Geographical segment

Analysis of the Group's revenue and results and the Group's carrying amount of segment assets and additions to property, plant and equipment by geographical area in which the assets are located has not been presented as the Group's operations are mainly situated in the PRC in which its assets and customers are located and revenue was derived principally therefrom. Accordingly, no geographical segments were presented.

32 FORMER RELATED PARTY

(a) According to management of the Company, Anyang Chemical Industry Group Co., Ltd ("Anhua") ceased to be a related party with effect from December 24, 2004 pursuant to the Restructuring Exercise which was undertaken for the IPO of the Company.

(b) On January 1, 2005, a subsidiary, Anyang Jiutian Fine Chemical Co., Ltd ("Anyang Jiutian") signed a 20-year raw materials and spare parts purchase agreement with Anhua. The transaction price is mutually agreed by both parties and updated according to market price every three years. According to the supplementary agreement dated July 30, 2005, between Anyang Jiutian and Anhua, the transaction price will be reviewed every half year and revised when necessary.

(c) In 2007, the Company and Anhua incorporated a subsidiary, Anyang Jiulong Chemical Co., Ltd whose principal activities are production and sales of methanol. The Company owned 51% interest in this subsidiary while Anhua owns the remaining 49%. During the year, the Company increased its interest in this subsidiary to 75.5% (Note 12).

(d) Significant transactions with Anhua are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Sales of goods	**(1,194)**	(7,787)
Sales of construction materials	**(2,006)**	–
Purchases of goods	**95,965**	103,953
Purchase of power supplies	**19,423**	20,679
Purchase of property, plant and equipment	**49,523**	118,119
Rental expense	**249**	249

(e) Balances with Anhua as at balance sheet date are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Due from:		
Anyang Chemical Industry Group Co., Ltd and its subsidiaries (Note 8)	**6,667**	6,534
Due to:		
Anyang Chemical Industry Group Co., Ltd and its subsidiaries		
– trade (Note 16)	**19**	18,027
– non-trade (Note 17)	**12**	418

The balances above are unsecured, interest-free and repayable on demand. Management considers the carrying amounts of these balances to approximate their fair value.

33 DIVIDENDS

In 2007, the tax-exempt (1-tier) 1.07 Singapore cents per share amounting to S$2,952,244 (equivalent to RMB14,878,000) of dividend paid was for 2006's proposed final dividend of 275,909,000 ordinary shares.

During the financial year, the tax-exempt (1-tier) 0.177 Singapore cents per share amounting to S$2,442,000 (equivalent to RMB12,347,000) of dividend paid is for previous year's proposed final dividend on 1,379,544,000 ordinary shares.

There is no dividend recommended for the current financial year.

Statement of Directors

In the opinion of the directors, the consolidated financial statements of the Group and the balance sheet and statement of changes in equity of the Company set out on pages 35 to 83 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 December 31, 2008 and of the results, changes in equity and cash flows of the Group and changes in equity of the Company for the financial year then ended and at the date of this statement, there are reasonable grounds to believe that the Company will be able to pay its debts when they fall due.

ON BEHALF OF THE DIRECTORS

____

Sun Zhiqiang

____

Zhang Aiping

April 2, 2009

Shareholding Statistics

STATISTICS OF SHAREHOLDERS AS AT 17 MARCH 2009

Issued and Fully Paid-up Capital	–	S$127,141,985 comprising 1,655,444,000 ordinary shares
Class of Shares	–	Ordinary shares
Voting Rights	–	One Vote per share

DISTRIBUTION OF SHAREHOLDERS BY SIZE OF SHAREHOLDINGS

Size of Holdings	No. of Ordinary Shareholders	% of Holders	No. of Shares	% of Shares
1 – 999	1	0.01	252	0.00
1,000 – 10,000	2,335	26.71	18,698,000	1.13
10,001 – 1,000,000	6,335	72.48	505,734,999	30.55
1,000,001 and above	70	0.80	1,131,010,749	68.32
	8,741	100.00	1,655,444,000	100.00

DISTRIBUTION OF WARRANTHOLDERS BY SIZE OF WARRANTHOLDINGS

Size of Holdings	No. of Warrantholders	% of Holders	No. of Warrants	% of Warrants
1 – 999	93	3.34	45,540	0.02
1,000 – 10,000	2,079	74.68	7,101,800	2.57
10,001 – 1,000,000	595	21.37	49,464,760	17.93
1,000,001 and above	17	0.61	219,296,700	79.48
	2,784	100.00	275,908,800	100.00

LIST OF 20 LARGEST SHAREHOLDERS

	SHAREHOLDER'S NAME	NO. OF SHARES	%
1	HSBC (SINGAPORE) NOMINEES PTE LTD	627,617,000	37.91
2	CITIBANK NOMINEES SINGAPORE PTE LTD	64,818,000	3.92
3	OCBC SECURITIES PRIVATE LTD	61,317,000	3.70
4	LIM & TAN SECURITIES PTE LTD	42,928,000	2.59
5	UNITED OVERSEAS BANK NOMINEES PTE LTD	33,273,000	2.01
6	CIMB-GK SECURITIES PTE. LTD.	30,990,000	1.87
7	UOB KAY HIAN PTE LTD	27,874,000	1.68
8	KIM ENG SECURITIES PTE. LTD.	23,389,000	1.41
9	MERRILL LYNCH (SINGAPORE) PTE LTD	18,460,000	1.12
10	DBS NOMINEES PTE LTD	15,461,449	0.93
11	DBS VICKERS SECURITIES (S) PTE LTD	15,203,000	0.92
12	PHILLIP SECURITIES PTE LTD	14,007,300	0.85
13	HONG LEONG FINANCE NOMINEES PTE LTD	12,750,000	0.77
14	LEE CHEE SENG	10,250,000	0.62
15	CHEW KENG KEONG	9,000,000	0.54
16	ASIACAP MANAGEMENT PTE LTD	6,000,000	0.36
17	GOH TIOW GUAN	5,800,000	0.35
18	OCBC NOMINEES SINGAPORE PTE LTD	5,451,000	0.33
19	NG BOON GUAT	5,300,000	0.32
20	ISHAKBHAI EBRAHIM MOHAMEDALI TAIBJI	5,000,000	0.30
	TOTAL:	**1,034,888,749**	**62.50**

Shareholding Statistics

LIST OF 20 LARGEST WARRANTHOLDERS

	WARRANTHOLDER'S NAME	NO. OF WARRANTS	%
1	HSBC (SINGAPORE) NOMINEES PTE LTD	111,502,800	40.41
2	MERRILL LYNCH (SINGAPORE) PTE LTD	41,290,000	14.97
3	CITIBANK NOMINEES SINGAPORE PTE LTD	23,907,700	8.67
4	UNITED OVERSEAS BANK NOMINEES PTE LTD	14,559,800	5.28
5	OCBC SECURITIES PRIVATE LTD	8,300,600	3.01
6	ANG AH CHIAH	2,006,000	0.73
7	UOB KAY HIAN PTE LTD	1,950,400	0.71
8	WONG SU YONG	1,936,000	0.70
9	DBS NOMINEES PTE LTD	1,899,400	0.69
10	GOH YEO HWA	1,800,000	0.65
11	WONG SIK ERN	1,710,000	0.62
12	MAYBAN NOMINEES (S) PTE LTD	1,660,000	0.60
13	LEE CHEE SENG	1,650,000	0.60
14	GOH YEW GEE	1,500,000	0.54
15	TAN YEW KIANG	1,334,000	0.48
16	GOH LAI PENG	1,260,000	0.46
17	TAN CHIN HOCK	1,030,000	0.37
18	CHENG KIANG HUAT	1,000,000	0.36
19	ISHAKBHAI EBRAHIM MOHAMEDALI TAIBJI	1,000,000	0.36
20	ONG ENG JU	934,000	0.34
	TOTAL:	**222,230,700**	**80.55**

SUBSTANTIAL SHAREHOLDERS

		Direct Interest		Deemed Interests	
No.	**Name**	**No. of shares held**	**%**	**No. of shares held**	**%**
1	Stateglory Investments Limited	470,625,000	28.43	–	–
2	Wang Xianjin[(1)]	–	–	470,625,000	28.43
3	Zhang Aiping[(2)]	–	–	470,625,000	28.43
4	Sun Zhiqiang[(2)]	–	–	470,625,000	28.43
5	Lee Chee Seng[(3)]	10,250,000	0.62	74,419,000	4.49

Notes:

(1) The former Executive Chairman and former Group Chief Executive Officer, Wang Xianjin, holds 36% of the issued share capital of Stateglory Investment Limited. Accordingly he is deemed to have an interest in the shares held by Stateglory Investments Limited.

(2) The Executive Directors, Zhang Aiping and Sun Zhiqiang each holds 32% of the issued share capital of Stateglory Investment Limited respectively. Accordingly each of them is deemed to have an interest in the shares held by Stateglory Investments Limited.

(3) Lee Chee Seng, an Executive Director, holds 100% of the issued share capital of Woolston Park Limited. Accordingly he is deemed to have interest in the shares of 74,419,000 held by Woolston Park Limited.

COMPLIANCE WITH RULE 723 OF THE SGX-ST LISTING MANUAL

Based on information available and to the best knowledge of the Directors, as at 17 March 2009, approximately 66.38% of the ordinary shares of the Company are held by the public. The Company is therefore in compliance with Rule 723 of the SGX-ST Listing Manual.

Notice of the Fourth Annual General Meeting

NOTICE IS HEREBY GIVEN THAT the Fourth Annual General Meeting of the Company will be held at Copthorne King's Hotel Singapore, Prince 2, Level 13, 403, Havelock Road, Singapore 169632 on Monday, 27 April 2009 at 10.00 a.m. for the purpose of transacting the following businesses:

ORDINARY BUSINESS

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

2. To approve Directors' fees of S$150,000.00 for the financial year ended 31 December 2008. **(Resolution 2)**

3. To re-elect the following directors who are retiring in accordance with the provisions of the Articles of Association of the Company and have offered themselves for re-election:
   a. Mr Zhang Aiping **(Resolution 3)**
   b. Mr Sun Zhiqiang **(Resolution 4)**
   c. Mr Lee Chee Seng **(Resolution 5)**

4. To re-appoint Messrs Deloitte & Touche LLP as Auditors of the Company and to authorise the Directors to fix their remuneration. **(Resolution 6)**

SPECIAL BUSINESS

To consider and, if thought fit, to pass the following as Ordinary Resolutions, with or without modifications:

5. **Authority to issue shares** **(Resolution 7)**

   "That pursuant to Section 161 of the Companies Act (Cap 50) and the listing rules of the Singapore Exchange Securities Trading Limited ("Listing Rules"), approval be and is hereby given to the Directors to issue:–

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

   (b) convertible securities; or

   (c) additional convertible securities arising from adjustments made to the number of convertible securities previously issued in the event of rights, bonus or capitalisation issues; or

   (d) shares arising from the conversion of convertible securities, at any time and upon such terms and conditions and for such purposes as the Directors may in their absolute discretion deem fit provided that:–

(i) the aggregate number of shares and convertible securities that may be issued shall not be more than 50% of the total number of issued shares (excluding treasury shares) in the capital of the Company or such other limit as may be prescribed by the Singapore Exchange Securities Trading Limited as at the date the general mandate is passed;

(ii) the aggregate number of shares and convertible securities to be issued other than on a pro-rata basis to existing shareholders shall not be more than 20% of the total number of issued shares (excluding treasury shares) in the capital of the Company or such other limit as may be prescribed by the Singapore Exchange Securities Trading Limited as at the date the general mandate is passed;

(iii) for the purpose of determining the aggregate number of shares that may be issued under sub-paragraphs (i) and (ii) above, the total number of issued shares (excluding treasury shares) shall be calculated based on the total number of issued shares (excluding treasury shares) in the capital of the Company as at the date the general mandate is passed after adjusting for new shares arising from the conversion or exercise of any convertible securities or employee stock options in issue as at the date the general mandate is passed and any subsequent bonus issue, consolidation or subdivision of the Company's shares;

(iv) The 50% limit in (i) above may be increased to 100% for the Company to undertake pro-rata renounceable rights issues; and

(v) unless earlier revoked or varied by the Company in general meeting, such authority shall continue in force until the next Annual General Meeting or the date by which the next Annual General Meeting is required by law to be held, whichever is earlier." (See Explanatory Note 1).

6. To transact any other business which may properly be transacted at an Annual General Meeting.

BY ORDER OF THE BOARD

Cho Form Po
Lin Moi Heyang
Company Secretaries

Singapore, 11 April 2009

Notice of the Fourth Annual General Meeting

Explanatory Notes:–

1. Resolution No. 7, if passed, will authorise and empower the Directors of the Company from the date of the above Meeting until the next Annual General Meeting to issue shares and/or 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 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. This authority will, unless revoked or varied at a general meeting, expire at the next Annual General Meeting of the Company.

   This proposed ordinary resolution, if passed, will also authorise and empower Directors of the Company to issue up to 100% of the Company's issued share capital via a pro-rata renounceable rights issue. This is one of the new measures introduced by the Singapore Exchange Limited, in consultation with the Monetary Authority of Singapore, on 20 February 2009 to accelerate and facilitate listed issuers' fund raising efforts. This mandate will provide the Directors with an opportunity to raise funds and avoid prolonged market exposure by reducing the time taken for shareholders' approval, in the event the need arises. Minority shareholders' interests are mitigated as all shareholders have equal opportunities to participate and can dispose their entitlements through trading of nil-paid rights if they do not wish to subscribe for their rights shares. This mandate is conditional upon the Company:

   (i) making periodic announcements on the use of the proceeds as and when the funds are materially disbursed; and

   (ii) providing a status report on the use of proceeds in the annual report.

   For the purpose of Resolution 7, the total number of issued shares (excluding treasury shares) is based on the Company's total number of issued shares (excluding treasury shares) at the time this proposed ordinary resolution is passed after adjusting for new shares arising from the conversion or exercise of convertible securities, the exercise of share options or the vesting of share awards outstanding or subsisting at the time when this proposed ordinary resolution is passed and any subsequent bonus issue, consolidation or subdivision of shares.

Notes:

1. A member of the Company entitled to attend and vote at the Meeting is entitled to appoint not more than two proxies to attend and vote in his stead.
2. Where a member appoints more than one proxy, the appointments shall be invalid unless he specifies the proportion of his shareholding to be represented by each proxy.
3. A proxy need not be a member of the Company.
4. If the appointer is a corporation, the proxy must be executed under seal or the hand of its duly authorised officer or attorney.
5. The instrument appointing a proxy must be deposited at the office of the Share Registrar, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.) at 8 Cross Street, #11-00 PWC Building, Singapore 048424 not later than 48 hours before the time appointed for the Meeting.

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九天化工集团有限公司
JIUTIAN CHEMICAL GROUP LIMITED

(Incorporated in the Republic of Singapore)
(Company Registration No.: 200415416H)

PROXY FORM

Important:

1. For investors who have used their CPF monies to buy Jiutian Chemical Group Limited shares, the 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.

Total Number of Shares held	

I/We ______________________________ (Name)

of ______________________________ (Address)

being a member/members of Jiutian Chemical Group Limited (the "Company") hereby appoint:

Name	Address	NRIC/ Passport No.	Proportion of Shareholding (%)
(a)			
And/or (delete as appropriate)			
(b)			

or failing *him/her, the Chairman of the Fourth Annual General Meeting ("4th AGM") of the Company as my/our proxy/ proxies to vote for me/us on my/our behalf and, if necessary, to demand a poll at the 4th AGM of the Company, to be held at Copthorne King's Hotel Singapore, Prince 2, Level 13, 403, Havelock Road, Singapore 169632 on Monday, 27 April 2009 at 10.00 a.m. and at any adjournment thereof.

I/We direct my/our proxy/proxies to vote for or against the Resolutions to be proposed at the 4th AGM as indicated hereunder. If no specific directions as to voting are given, the proxy/proxies will vote or abstain from voting at his/their discretion, as he/they will on any other matter arising at the 4th AGM.

No.	Resolutions	To be used on a show of hands		To be used in the event of a poll	
		For*	Against*	No. of Votes for**	No. of Votes Against**
	Ordinary Business				
1	To receive and adopt the Directors' Report and the Audited Financial Statements for the financial year ended 31 December 2008 together with the Auditors' Report thereon.				
2	To approve Directors' fees of S$150,000.00 for the financial year ended 31 December 2008.				
3	To re-elect Mr Zhang Aiping as a Director.				
4	To re-elect Mr Sun Zhiqiang as a Director.				
5	To re-elect Mr Lee Chee Seng as a Director.				
6	To re-appoint Messrs Deloitte & Touche LLP as Auditors of the Company and authorise the Directors to fix their remuneration.				
	Special Business				
7	To authorise Directors to issue shares.				

* Please indicate your vote "For" or "Against" with an "x" within the box provided.

** If you wish to exercise all your votes "For" or "Against", please indicate with an "x" within the box provided. Alternatively, please indicate the number of votes as appropriate.

Dated this __________ day of __________________ 2009

Total No. of Shares in	No. of Shares
CDP Register	
Register of Members	

____
Signature of Member(s) or Common Seal

IMPORTANT: Please Read Notes for This Proxy Form.

Notes:

1. A member entitled to attend and vote at the Meeting is entitled to appoint one or two proxies to attend and vote in his stead. A proxy need not be a member of the Company.

2. Where a member appoints more than one proxy, he should specify the proportion of his shareholding (expressed as a percentage of the whole) to be represented by each proxy and if no percentage is specified, the first named proxy shall be deemed to represent 100 per cent of the shareholding and the second named proxy shall be deemed to be an alternate to the first named.

3. 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, Cap. 50 of Singapore), he should insert that number of shares. If the member has shares registered in his name in the Register of Members of the Company, he should insert that number of shares. If the member has shares entered against his name in the Depository Register and registered in his/her name in the Register of Members, he should insert the aggregate number of shares. If no number is inserted, the instrument appointing a proxy or proxies will be deemed to relate to all shares held by the member.

4. The instrument appointing a proxy or proxies must be deposited at the office of the Share Registrar, Tricor Barbinder Share Registration Services (a division of Tricor Singapore Pte. Ltd.) at 8 Cross Street, #11-00 PWC Building, Singapore 048424 not less than 48 hours before the time set for the Meeting.

5. The instrument appointing a proxy or proxies must be under the hand of the appointor or by his/her attorney duly authorised in writing. Where the instrument appointing a proxy or proxies is executed by a corporation, it must be executed either under its common seal or under the hand of its attorney or a duly authorised officer.

6. Where an instrument appointing a proxy or proxies is signed on behalf of the appointor by an attorney, the letter or power of attorney or a duly certified copy thereof must (failing previous registration with the Company) be lodged with the instrument of proxy, failing which the instrument may be treated as invalid.

7. A corporation which is a member may, in accordance with Section 179 of the Companies Act, Cap. 50 of Singapore, authorise by resolution of its directors or other governing body such person as it thinks fit to act as its representative at the Meeting.

8. The Company shall be entitled to reject the instrument appointing a proxy or proxies, if it is incomplete, improperly completed, illegible or where the true intentions of the appointor are not ascertainable from the instructions of the appointor specified on the instrument appointing a proxy or proxies. In addition, in the case of shares entered in the Depository Register, the Company may reject any instrument appointing a proxy or proxies if the member, being the appointor, is not shown to have shares entered against his name in the Depository Register as at 48 hours before the time appointed for holding the Meeting, as certified by The Central Depository (Pte) Limited to the Company.

Corporate Information

BOARD OF DIRECTORS
Sun Zhiqiang
Zhang Aiping
Lee Chee Seng
Wu Yu Liang
Chan Kam Loon
Foo Meng Kee

AUDIT COMMITTEE
Chan Kam Loon (Chairman)
Foo Meng Kee
Wu Yu Liang

NOMINATING COMMITTEE
Foo Meng Kee (Chairman)
Chan Kam Loon
Zhang Aiping

REMUNERATION COMMITTEE
Wu Yu Liang (Chairman)
Chan Kam Loon
Foo Meng Kee

COMPANY SECRETARIES
Cho Form Po, ACIS
Lin Moi Heyang, ACIS

REGISTERED OFFICE
8 Cross Street
#11-00 PWC Building
Singapore 048424

COMPANY REGISTRATION NUMBER
200415416H

PRINCIPAL PLACE OF BUSINESS ADDRESS
3 Raffles Place
#05-01 Bharat Building
Singapore 048617
Main Line : (65) 6536 3738
Fax Line : (65) 6536 3898

Zhangwu Street, Long An District,
Anyang, Henan Province,
People's Republic of China

SHARE REGISTRAR
Tricor Barbinder Share Registration Services
(a business division of Tricor Singapore Pte. Ltd.)
8 Cross Street
#11-00 PWC Building
Singapore 048424

PRINCIPAL BANKERS
Bank of China
Anyang City Branch
Wenfeng Middle Road
Anyang City, Henan Province
People's Republic of China

Industrial and Commercial Bank of China
Shuiye Branch
Fuyan Road, Shuiye Town
Anyang City, Henan Province
People's Republic of China

AUDITORS
Deloitte & Touche LLP
Certified Public Accountants
6 Shenton Way #32-00
DBS Building Tower Two
Singapore 068809
Partner-in-charge: Patrick Tan Hak Pheng
Appointed on 1 June 2008

九天化工集团有限公司
JIUTIAN CHEMICAL GROUP LIMITED
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