

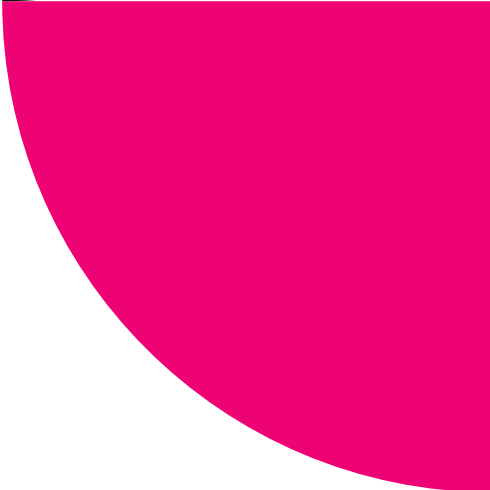


中化化肥控股有限公司
SINO FERT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability) Stock Code: 297

ANNUAL REPORT 2020







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DEFINITIONS

In this annual report, unless the context otherwise requires, the following expressions have the following meaning:

Term	Definition
“Audit Committee”	the audit committee of the Company established by the Board in 1999
“Board”	the board of Directors of the Company
“Bye-law(s)”	the bye-law(s) of the Company, as amended, modified or otherwise supplemented from time to time
“ChemChina”	中國化工集團有限公司 (China National Chemical Corporation Limited)
“Company”	Sinofert Holdings Limited
“Corporate Governance Code”	the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules
“Corporate Governance Committee”	the corporate governance committee of the Company established by the Board in 2012
“connected person”	has the same meaning ascribed to it under the Listing Rules
“connected transaction(s)”	has the same meaning ascribed to it under the Listing Rules
“continuing connected transaction(s)”	has the same meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the same meaning ascribed to it under the Listing Rules
“COVID-19 pandemic”	Novel Coronavirus (2019) pandemic
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Term	Definition
“Macao”	Macao Special Administrative Region of the PRC
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Nomination Committee”	the nomination committee of the Company established by the Board in 2005
“PRC” or “China”	the People’s Republic of China, which for the purposes of this annual report only, excludes Hong Kong, Macao and Taiwan
“Remuneration Committee”	the remuneration committee of the Company established by the Board in 2005
“RMB”	Renminbi, the lawful currency of the PRC
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Singapore”	Republic of Singapore
“Sinochem Agriculture”	中化現代農業有限公司 (Sinochem Agriculture Holdings Limited)
“Sinochem Fertilizer”	中化化肥有限公司 (Sinochem Fertilizer Company Limited)
“Sinochem Finance”	中化集團財務有限責任公司 (Sinochem Finance Co., Ltd.)
“Sinochem Group”	中國中化集團有限公司 (Sinochem Group Co., Ltd.)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the same meaning ascribed to it under the Listing Rules
“Syngenta Group”	先正達集團股份有限公司 (Syngenta Group Co., Ltd.)
“US\$”	United States dollars, the lawful currency of the United States of America
“Yangmei Pingyuan”	陽煤平原化工有限公司 (Yangmei Pingyuan Chemical Co., Ltd)
“%”	percent

COMPANY PROFILE AND CORPORATE INFORMATION

COMPANY PROFILE

Sinofert Holdings Limited successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries in July 2005, and became a listed company (Stock code: 297) on The Stock Exchange of Hong Kong Limited. It is now a comprehensive crop nutrition enterprise centering on distribution services and vertically integrating production and network distribution.

Major businesses of the Company and its subsidiaries include the production, import and export, distribution and retail of raw materials and finished products of crop nutrition products, provision of technological research and development and services relating to crop nutrition business and products, exploration and exploitation of phosphate mine, and production of monocalcium/dicalcium phosphate (MCP/DCP).

Benchmarked by the turnover of 2020, the Group is:

- China's leading crop nutrition products distribution service provider;
- a large supplier of imported crop nutrition in China;
- China's leading manufacturer of crop nutrition products.

The Group's competitive strengths are mainly reflected in:

- its business model of centering on distribution services and integrating production and distribution;
- China's leading distribution network of agricultural inputs;
- its abilities to produce and distribute complete varieties of crop nutrition products, including nitrogen, phosphate, potash, compound fertilizers and special fertilizers;
- its strategic alliances with various international suppliers;
- its comprehensive agrichemical service system directly reaching the farmers;
- one of the largest phosphate resource owners in China and one of the largest MCP/DCP manufacturers in Asia.

The Group strives to become China's leading technology-based marketing and service provider of crop nutrition. The Group constantly aspires to achieve sustainable, stable and rapid growth, to deliver value and returns to the shareholders, and to be committed to social responsibilities.

Prior to 17 June 2020, the ultimate controlling shareholder of the Company is Sinochem Group. On 17 June 2020, Sinochem Group, through its subsidiary, completed the transfer of 3,698,660,874 Shares (representing approximately 52.7% of the total issued share capital of the Company) to Syngenta Group, which is in turn a wholly-owned subsidiary of ChemChina (the "Change of Controlling Shareholder"). After the Change of Controlling Shareholder, Syngenta Group and ChemChina have become the indirect and ultimate controlling shareholders of the Company, respectively, and Sinochem Group had ceased to own any equity interest in the Company. The second largest shareholder of the Company is Nutrien Ltd., which is the largest potash producer in the world.

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. QIN Hengde (*Chief Executive Officer*)
Mr. FENG Mingwei (appointed on 25 February 2020)
Mr. Harry YANG

Non-Executive Director

Mr. J. Erik FYRWALD (*Chairman*)
(appointed on 2 November 2020)

Independent Non-Executive Directors

Mr. KO Ming Tung, Edward
Mr. LU Xin
Mr. TSE Hau Yin, Aloysius

Members of Committees

Audit Committee

Mr. TSE Hau Yin, Aloysius (*Chairman*)
Mr. KO Ming Tung, Edward
Mr. LU Xin

Remuneration Committee

Mr. LU Xin (*Chairman*)
Mr. KO Ming Tung, Edward
Mr. TSE Hau Yin, Aloysius

Nomination Committee

Mr. KO Ming Tung, Edward (*Chairman*)
Mr. LU Xin
Mr. TSE Hau Yin, Aloysius
Mr. Harry YANG

Corporate Governance Committee

Mr. QIN Hengde (*Chairman*)
Mr. FENG Mingwei (appointed on 2 November 2020)
Mr. Harry YANG
Ms. CHEUNG Kar Mun, Cindy

Chief Financial Officer

Mr. GAO Jian

Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

Company Secretary

Ms. CHEUNG Kar Mun, Cindy

Auditors

KPMG
Public Interest Entity Auditor registered in accordance
with the Financial Reporting Council Ordinance

Legal Adviser

Latham & Watkins LLP

Principal Bankers

Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Agricultural Bank of China
China Everbright Bank
Bank of Tokyo-Mitsubishi
Rabobank International

COMPANY PROFILE AND CORPORATE INFORMATION

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

Unit 4705, 47th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Share Registrars and Transfer Offices

Bermuda (Principal office)

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong (Branch)

Tricor Secretaries Limited
Level 54, Hopewell Centre
183 Queen's Road East
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Company Website

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Share Listing

The Company's Shares are listed on the Main Board of
The Stock Exchange of Hong Kong Limited
Stock Code: 297

Investor Relations

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FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

(RMB'000 except for sales volume and basic earnings per share)

	2020	2019
Sales volume (in 10,000 tons)	1,217	1,151
Revenue	21,380,740	22,950,942
Gross profit	1,986,983	2,085,648
Profit before taxation	671,742	650,325
Profit attributable to owners of the Company	644,074	615,767
Basic earnings per share (RMB)	0.0917	0.0877
Return on equity ^(Note 1)	8.18%	8.16%
Debt to equity ratio ^(Note 2)	21.64%	31.48%

Note 1: Calculated on the basis of profit attributable to owners of the Company for the reporting period divided by the average equity attributable to owners of the Company as at the beginning and the end of the reporting period.

Note 2: Calculated on the basis of total interest-bearing debt divided by total equity as at the end of the reporting period.



CHAIRMAN'S STATEMENT



CHAIRMAN'S STATEMENT



Growing with China's Modern Agriculture

To shareholders,

On behalf of the Board of Directors, I hereby report to all shareholders the annual results of Sinofert Holdings Limited and its subsidiaries for the year ended 31 December 2020.

In 2020, affected by the inter-related impact of factors such as the COVID-19 pandemic, China-US trade friction, extreme weather conditions and agricultural supply-side reform, the fertilizer industry was subject to severe challenges with key products experiencing significant price fluctuations. Facing such overwhelming market challenges, the Group firmly implemented various strategic initiatives determined at the beginning of the year, which include formulating an innovative “online sales and offline service” model, optimizing channel structure and implementing specialized operation, to duly seize market opportunities and achieve fruitful result on various fronts. In 2020, the Group achieved a total sales volume of 12.17 million tons, up by 6% year on year. Profit attributable to owners of the Company was RMB644 million, up by 5% year on year, representing a steady improvement in operating results. The operating indicators performed well, and the debt to assets structure was steady with a relatively strong solvency. At the same time, the Group has continuously achieved breakthroughs in strategic cooperation with domestic and overseas suppliers, and has been able to consolidate and enhance its operational capability on a continuous basis.

The Basic Fertilizers Division continued to comprehensively implement strategic concentrated procurement, aiming at ensuring a steady supply of high-quality products. The division steadily increased its strategic procurement volume, maintaining a stable proportion of strategic procurement. It constantly strengthened cooperation with major customers and significantly increased its proportion of sales volume to industrial customers. By

adopting integrated operation for basic fertilizer products for agriculture, the sales volume was up by 24% year on year while the expense was down by 22% year on year, and efficiency has been greatly improved. The Group has iteratively upgraded the functions of Fertex, strengthened its effort in collaborating with government and enterprises as well as platform promotion, concentrated on direct sales to large-scale growers and explored service models for green planting. In 2020, sales volume of the Basic Fertilizers Division was 9.46 million tons, representing a year on year increase of 6%; profit before taxation amounted to RMB510 million, representing a year on year increase of 3%, continuing to be the anchor for profits.

The Distribution Division continued its robust growth to accelerate application of advanced technologies, explore synergy among research, production and sales and establish its R&D pipeline. Product structure is aligned with focus being put on differentiated products. The sales volume to large-scale growers and major customers of specific channels accounted for 16%, which was attributable to the constant promotion of channel upgrades and systematic improvement in service capabilities. By actively coordinating with Syngenta Group's internal resources, the crop protection business has surged in size and recorded an annual turnover of RMB315 million. In 2020, sales volume of the Distribution Division was 2.55 million tons, up by 9% year on year. The sales volume of special fertilizers and differentiated compound fertilizers amounted to 730,000 tons, accounting for 43% of domestic fertilizers. Profit before taxation amounted to RMB150 million, up by 39% year on year.

The production subsidiaries has achieved a sustained, full-load and optimal operation. Sinochem Jilin Changshan Chemical Co., Ltd. and Sinochem Yunlong Co., Ltd. both committed to overcome the adverse effect brought by decline in product price and recorded an annual sales volume of 560,000 tons in aggregate. Profit before taxation amounted to RMB207 million. Following the suspension of production of old plant of Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling"), the production devices were removed through protective measures. The closure of phosphogypsum storage yard has passed environmental inspection and no abnormality operation was identified during the ongoing supervision. The construction of new plant aligned with the standard of industry leading enterprises by drawing from their experiences during the project design stage, from which comprehensively improving the internal and external quality of products.

The R&D team steadily expanded, while the R&D investment was steadily increased, and as a result, the capability of commercialization of research results was significantly improved, and technology reserves continued to be strengthened. The Group continued to deepen cooperation with external research institutes and enterprises, and achieved remarkable results in research and development. The newly developed compound fertilizers and differentiated basic fertilizer products demonstrated better market competitiveness. Meanwhile, the Group significantly boosted its biological fertilizers R&D capabilities by strategically investing in Beijing Aerospace Hengfeng Technology Corp., Ltd., a company with core R&D capabilities of microbial agent.

Despite the challenges of a changing market, the Board of Directors of the Company has always adhered to the goal of maximizing shareholder value, continuously improving corporate governance and optimizing the management system. In accordance with the Corporate Governance Code of the Stock Exchange of Hong Kong Limited, the Company's Board of Directors held four regular meetings in 2020 at which the Company's annual report, interim report, strategies and planning and other significant matters were reviewed and approved. Meanwhile, the Board also reviewed and approved other matters such as connected transactions, continuing connected transactions, significant business and financing matters through other means. The Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Board had all fulfilled their respective duties and rights as entrusted by the Board on such matters as improving internal control, optimizing the remuneration and motivation systems and perfecting the corporate governance structure.

In 2021, China's fertilizer industry is still under the haze of uncertainties such as COVID-19 pandemic, international relations and extreme weather conditions. Industry consolidation and reshuffle will be intensified with the divergence of fertilizer enterprises. Meanwhile, with strong economic recovery in China, the Chinese

government continues to attach great emphasis on agricultural modernization, as expressed in the latest Circular No.1 entitled "Opinion on Comprehensively Promote Rural Revitalization and Expedite Agricultural and Rural Modernization", which was officially announced on 21 February 2021 and launched a new chapter in comprehensively promoting agricultural modernization, being the 18th of such documents since the beginning of the new century. This will create important opportunities for the Group's innovative operations and business transformation.

In 2021, the Group will continue to focus on business transformation and upgrading, follow the trend of agricultural supply-side reform and the rapidly changing fertilizer industry, take root in modern agriculture, streamline the operational structure so as to achieve stable and sustainable growth. The Basic Fertilizers Division will continue to strengthen strategic procurement and marketing systems for agricultural and industrial customers, implement strategy to double the sales of potash fertilizer, and promote transformation of business model from marketing to platform service based on the Fertex ecological service. The Distribution Division will focus on differentiated products, promote crop-oriented upgrades of products, improve the level of digitalization, further implement the regionalization, horizontal expansion and professionalization of channels, and strengthen the corporate synergy with member companies of the Syngenta Group so as to maximize its channel value. The production subsidiaries will accelerate transformation and upgrading, and promote the "move for better and stronger" relocating work of Sinochem Fuling. The Group will continue to improve product R&D and commercialization capabilities, and push forward the construction of a highly efficient R&D and innovation platform for fertilizers with the Linyi R&D Centre at its core. Meanwhile, the Group will achieve faster transformation and development within Syngenta Group. The Group will consolidate its leading advantage in domestic sales scale, strengthen its position in the supply chain, promote the strategy of differentiated products, and further improve its profitability.

Last but not the least, on behalf of the Board of Directors, I would like to extend our deep appreciations and sincere thanks to the shareholders of the Company and customers of the Group. We hope to have your continuous attention and support in the future. We expect the management and members and staff of the Company will bear in mind the vision of "In Science We Trust, Combine Action with Knowledge", and work ever harder to continuously make contribution to the development of the Group.

J. Erik Fyrwald
Chairman of the Board

Hong Kong, 30 March 2021

CHRONICLE OF EVENTS

JANUARY 2020

- The transaction module of the Group's Fertex platform for industrial chain service ("Fertex") was officially launched online, realizing the functions such as self-operated transaction and logistics tripartite matching, and could operate online through applets in mobile devices. Fertex can provide real-time information, convenient transaction and effective logistics services online for the industry of agricultural inputs, and form a closed-loop service system.



MARCH 2020

- The Group shared its experience of pandemic containment with OCP Group ("OCP") of Morocco, Uralkali of Russia, Arab Potash Company of Jordan and The Mosaic Company of the United States, which deepened the strategic relationship with its business partners. Mostafa Terrab, Chairman of the International Fertilizer Association ("IFA") and CEO of OCP, shared the Group's successful experience of pandemic containment with 476 members of IFA around the world, and proposed to combat the pandemic with joint efforts.
- The kick start of the relocation project of Sinochem Chongqing Fuling Chemicals Co., Ltd., a subsidiary of the Group, marked the commencement of the construction stage.

APRIL 2020

- With the full support of relevant government departments, the Chinese potash fertilizer negotiation team that the Group participated in reached an agreement with Belarusian Potash Company (BPC), one of the largest potash fertilizer manufacturers in the world, in respect to the 2020 import contract for seaborne potash, which maintained a relatively low price of potash fertilizer around the world.
- The water-soluble fertilizer plants of Sinochem Agriculture (Xinjiang) Biotech Co., Ltd., a subsidiary of the Group, with an annual production capacity of 100,000 tons, were put into operation in Manas and Kashgar, and continued to enhance the Group's regional influence and competitiveness.

MAY 2020

- Sinochem Fertilizer, a subsidiary of the Group, and Guizhou Phosphate Chemicals (Group) Co., Ltd. entered into a strategic cooperation agreement for 2020, pursuant to which the two parties agreed on the total annual transaction of 1.2 million tons.

JUNE 2020

- The Group received a letter of gratitude from the General Office of the Ministry of Agriculture and Rural Affairs. This letter thanked the Group for giving full play to its important role in the supply of agricultural inputs for the spring cultivation during the COVID-19 pandemic period, and ensuring the safe supply of agricultural inputs for agricultural production in spring.
- The high-efficiency agricultural crop nutrition laboratory undertaken by Sinochem Agriculture (Linyi) R&D Center Co., Ltd., a subsidiary of the Group, was approved as an engineering laboratory in Shandong Province, which would contribute to the further improvement of its R&D innovation capabilities and its commercialization efficiency of R&D results.
- On 17 June 2020, Sinochem Group, through its subsidiary, completed the transfer of 3,698,660,874 Shares (representing approximately 52.7% of the total issued share capital of the Company) to Syngenta Group, which is in turn a wholly-owned subsidiary of ChemChina. After the Change of Controlling Shareholder, Syngenta Group and ChemChina have become the indirect and ultimate controlling shareholders of the Company, respectively, and Sinochem Group had ceased to own any equity interest in the Company.

JULY 2020

- Sinochem Fertilizer, a subsidiary of the Group, and The Mosaic Company of the United States held a cloud signing ceremony to enter into 2020-2024 Strategic Cooperation Agreement.
- Sinochem Fertilizer, a subsidiary of the Group, and Hubei Yihua Group held a strategic cooperation signing ceremony and jointly released a co-branding.



OCTOBER 2020

- Sinochem Agriculture (Xinjiang) Biotech Co., Ltd., a subsidiary of the Group, was awarded the High-tech Enterprise certification.
- In March and October, Sinochem Fertilizer, a subsidiary of the Group, made strategic investments in Beijing Aerospace Hengfeng Technology Corp., Ltd. to acquire the key technologies of biological fertilizers and exclusive right to microbial agent resources within the industry, deeply integrating 12 patented technologies to develop differentiated biological fertilizer products and make them become a new profit point.



AUGUST 2020

- The Group won the honorary title of "China's Meritorious Enterprise of Potassium and Potash Fertilizer", awarded by Potash Salt and Potash Fertilizer Industry Branch of China Inorganic Salt Industry Association. Mr. Feng Mingwei, an executive Director of the Company, was awarded the title of "China's Pioneer in Potassium and Potash Fertilizer".



NOVEMBER 2020

- Sinochem Yunlong Co., Ltd., a subsidiary of the Group, was selected as one of the "Top 20 Additive Enterprises in 2020" by the China Feed Industry Association.

DECEMBER 2020



- Mr. Qin Hengde, the executive Director and Chief Executive Officer of the Company, was given the honorary title of "Model of State-owned Enterprises" by the SASAC.
- Sinochem Chongqing Fuling Chemicals Co., Ltd., a subsidiary of the Group, organized an expert review of environmental protection acceptance for the closed storage of the special tailing pond (phosphogypsum pond) pollution control project in the light of green development of the Yangtze River Economic Region. The construction progress and implementation effect of the project has met relevant requirements, and passed the environmental protection acceptance for the closed storage.



MANAGEMENT REVIEW AND PROSPECT



MANAGEMENT REVIEW AND PROSPECT

Business Environment

In 2020, the outbreak of the COVID-19 pandemic dealt a heavy blow to the global economy and resulted in a more complicated international environment, significantly increasing international instability and uncertainty. In response, the Chinese government took powerful actions to control the pandemic and actively implemented its policy of “stability on the six fronts” and the task of “security in the six areas”. As a result, China overcame the pandemic’s effects and became the first major economy that revived positive economic growth.



With its continuous promotion of the Rural Revitalization Strategy and supply-side structural reform, the Chinese government has put into place a comprehensive national food security strategy based on cultivated land management and application of technology. Its purpose is to strengthen the foundations of national food security, enhance protection of cultivated land, and improve the treatment of pollution from non-point agricultural sources. In recent years, though the total usage of fertilizers for agricultural production decreased to an extent, the usage intensity was high and comprehensive use efficiency had a great potential to grow. Additionally, though the fertilizer application ratio increased, it was still developing and a long way to go. Important approaches toward resolving the principal contradiction facing Chinese society in the new era include continuously deepening the concept of green development, doing a solid work on fertilizer application reduction and efficiency improvement, improving the agricultural production environment, and ensuring the quality and safety of agricultural products. 2020 was the year of achieving the goal of building a moderately prosperous society, and was the last year of winning the battle against poverty. Facing complicated domestic and foreign circumstances, it is crucial to stabilize the agricultural industry’s fundamentals with “agriculture, rural areas and farmers” as its cornerstone.

In 2020, the COVID-19 pandemic presented fertilizer companies with serious challenges in stocking for production and market circulation. Due to downturn of the upstream industry chain, fertilizer price declined significantly. In this light, the Chinese government increased investment and introduced policies supporting agriculture to stabilize grain production and increase farmers' incomes. On the other hand, the Chinese government continued to propel tariff and value-added tax policies that were favorable to import and export of fertilizers, encouraging international cooperation to create a win-win market environment. Meanwhile, domestic companies effectively boosted a healthy development of the agricultural industry through keeping up with construction of a modern agricultural infrastructure integrated with products, technology and services, and providing comprehensive and cost-effective agricultural technical service solutions.

Despite the challenges of worldwide downturn, the Group, under the lead of the Board of Directors, explored new ideas and approaches, pursued innovation and promoted transformation and upgrade of channels to achieve professional operation. During the pandemic, the Group put all inventories of fertilizers throughout the country on the market to satisfy the demand from farmers. Major production enterprises realized safe, stable, long-term, full and high-quality operation with improving management standard and cost efficiency. The Group took advantage of joining Syngenta Group to build a portfolio of crop protection products, create customized product groups, and enhance sales of differentiated products while improving the Fertex platform's functions of industrial chain service, exploring a transformation from a marketing model to a platform service provider model.



MANAGEMENT REVIEW AND PROSPECT

Financial Highlights

For the year ended 31 December 2020, the Group's revenue reached RMB21,381 million, down by 6.84% over the corresponding period in 2019 because of decreasing average selling prices. Profit attributable to owners of the Company was RMB644 million, up by 4.55% over the corresponding period in 2019, achieving a steady growth in financial results in a harsh business environment.

Research and Development

In 2020, the Group focused on research in key underlying technologies such as quality and output improvement, fertilizer application reduction and efficiency enhancement as well as soil improvement. The Group identified key R&D directions, and promoted upgrade of existing technology system. Also, the Group developed and upgraded 11 new crop nutrition products during the year, and transformed achievements in scientific research that gave birth to sales volume of 751,000 tons, increased by 40% year on year. The Group conducted independent R&D in S-M50 slow-release technology which significantly enhanced the slow-release effect of nitrogen. A highly effective system was established for the selection and evaluation of agricultural microbial bacteria strains, and biological fertilizer products



were developed through self-research and external cooperation. The Group independently developed special fertilizer products such as suspended fertilizer and functional water-soluble fertilizer, and achieved their commercialization and promotion. The Group cooperated with Syngenta Group's member engaging in crop protection business in China to develop a compound

fertilizer called Lanlin-Guanwushuang, which yielded obvious effect of quality improvement and output increase aiming at cash crops. The second-generation basic fertilizers for efficiency improvement such as Meilinmei and Linbao were jointly developed and commercialized by the Group and the Chinese Academy of Agricultural Sciences. In the future, the Group will focus on research and development of bio-fertilizers and special fertilizers, constantly upgrade existing product portfolio and enhance core competitiveness.

Manufacturing

In 2020, facing the outbreak of the COVID-19 pandemic and the overall economic downturn, subsidiaries of the Group overcame various difficulties, actively resumed work and production and strengthened fundamental management of production and operation, while focusing on the prevention and control of the COVID-19 pandemic. By means of synergy among regions, cost control, energy-saving, consumption-reducing and quality enhancement, the Group achieved cost reduction and efficiency improvement. In addition, subsidiaries of the Group unceasingly promoted intrinsic safety, product upgrade, technological innovation and production process optimization to enhance product competitiveness as well as the efficiency of production and operation, further propelling sustainable development of the Group.

Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, actively implemented the spirit of General Secretary Xi Jinping's instructions of "together we protect and avoid large-scale development" for the construction of the Yangtze River Economic Belt, and made progress in the entire relocation for the sake of environmental protection. The old factory has completed dismantling of production equipments through protective measures as well as auction and disposal of operating assets. The Group closed the phosphogypsum slag plant, finished soil covering and re-greening with a high standard and passed the acceptance for plant closing and treatment. The leachate treatment station was operating smoothly and met the environmental protection standards. The new factory benchmarked to the first class enterprises, carried out high-start design and high-standard management for its new projects, and made sufficient technological reserves and conducted repeated testing and experiments. The preliminary design was completed and detailed design was underway. Site formation was completed in the main installation area of the new factory and construction of the main structure has commenced in December 2020.



Driven by the concept of sustainable development, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, stressed on basic production work, realized a "safe, stable, long-term, full and high-quality" operation of its production facilities while exploring ways to increase revenue and reduce expenditure, improving its profitability. In 2020, facing the adverse conditions of decreasing market price of major products and intense competition, Sinochem Changshan focused on "safety and stable production" as its core, and made dedicated efforts to achieve stable and high output. As a result, technology and consumption indicators of production and operation shown a continuous improvement. Sinochem Changshan achieved prosperity in production and sales through actively analyzing market demand and constantly adjusting its product structure. It produced of 200,700 tons of synthetic ammonia and 70,200 tons of urea in the year and maintained a high-quality operation.

Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary of the Group, overcame the adverse impact on the market brought by the COVID-19 pandemic at home



and abroad. It focused on resolving difficulties in raw material supply, logistics and transportation, continuously optimized production processes, tightened internal control and management and fully pushed ahead its strategy, turning the crisis into opportunity and achieving a new high in sales volume of 342,700 tons of the MCP/DCP. As for sales, Sinochem Yunlong adhered to major customer strategy and entered into cooperation agreement with major domestic feeds stuff enterprises to secure sales volume under cooperation. It took initiatives to identify market opportunities and explore the products demand of new energy companies. Solid sales pivots were established in key emerging markets of Southern Asia, and market channel in Africa was opened up. In terms of production, the production of differentiated products with high margin such as granular and low chromium MCP and powder MDC was increased to contribute more profit. The appraisal for special consumptions such as consumptions of lignite and electricity was promoted, with a significant enhancement in the combined utilization rate. Sinochem Yunlong consistently upgraded existing technologies for phosphate rock mining and production of phosphate and MCP/DCP through implementing technological R&D in resources utilization of phosphogypsum, phosphoric acid slag and tailings, and achieved full process commercialization and a 92% phosphorus yield, maintaining a leading position in quality and technology in the MCP/DCP industry.

In respect of mine construction, the capacity continuing project of 600,000 tons per annum in Mozushao kept good momentum after it was put into operation. The six systems of safety and risk avoidance was running stably while the level of mechanization and automation was constantly improving. In 2020, it received the "National Green Mine" certification from the Ministry of Natural Resources. Through technological innovation and industrial upgrade, Sinochem Yunlong ensured the sustainable use of resources and continuously expanded the advantages in phosphate rock resources. It also established a flexible manufacturing platform for animal and plant nutritional fine phosphate to provide high-end phosphoric water-soluble fertilizers and support the sustainable development of the Group's phosphorus chemical business.

Basic Fertilizers Operations

The Basic fertilizers Division continued to comprehensively promote the strategic centralized procurement which ensured a stable supply of quality goods, while strategic procurement volume was steadily increased and strategic procurement ratio remained stable by focusing on the improvement of marketing ability and promoting the K30 core customer system upgrade plan, the sales

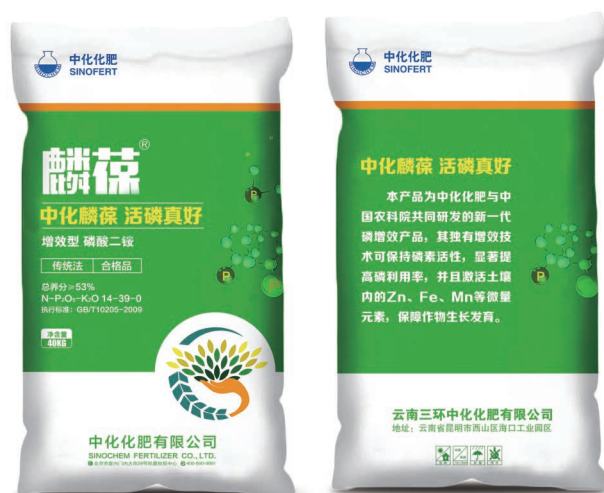
proportion of industrial customers increased significantly. Through integrated operation, sales volume of agricultural basic fertilizer increased by 24%. Fertex's functions was upgraded, and it enriched the supply of products, improved efficiency of vehicle organization and reduced transportation costs via logistics function. Meanwhile, it steadily promoted the functional configuration of information, trading, payment and other modules. Also, the Basic Fertilizers Division strengthened cooperation between government and enterprises as well as promotion of the platform, increased influences, and explored a service mode of green planting.

Potash Operations: In 2020, sales volume of potash fertilizers was 2.10 million tons, representing a year on year increase of 14% which was achieved by further deepening strategic cooperation with suppliers and strengthening core customer system. The Group strengthened communication and strategic cooperation with international suppliers to increase the access to overseas high-quality potash fertilizers, maintaining a relatively low price of potash fertilizers around the world. The Group strengthened strategic cooperation with Qinghai Salt Lake Industry Co., Ltd., reinforced market information exchange, promoted connection and coordination among purchase, sales and shipment, and further enhanced its market position and influence. It further built up core customer system for industrial potash, enhanced professional marketing and service capacity, met customers' critical demands, and enhanced the scale of cooperation with core customers and their stickiness. In addition, the Group deepened the marketing channel of potash for agriculture, enriched product varieties, reshaped its core channel system and continued to build its proprietary brands. Online and offline promotion and pilot demonstration were strengthened to achieve restorative growth in the sales of potash for agriculture. Thereinto, sales volume of a product called Fenghexiang increased by 17%.

Nitrogen Operations: In 2020, sales volume of nitrogen fertilizers was 3.70 million tons, up by 7% over the corresponding period in 2019. The Group continued to promote strategic procurement of nitrogen fertilizers and maintained stable and close strategic partnerships with

prime suppliers to secure low cost and stable supply capacity, with the proportion of strategic procurement increased by 6% over the corresponding period in 2019. In respect of sales, the Group continued its business model of maintaining a quick turnover rate and strictly controlled inventory exposure to achieve profitability in bulk quantity. At the same time, inventory exposure was hedged with urea futures which effectively controlled the risk of changes in market price. As for customers, the Group maintained the scale of direct sales to industrial customers, enhanced strategic partnership and strengthened development and maintenance of agricultural channel customers, achieving a steady increase in agricultural market share and sales growth in differentiated nitrogen fertilizers with high margin. For product research and development, the Group continued R&D in high growth and environmentally friendly products to improve soil quality, utilization rate of fertilizers and the ratio of input and output of farmers, making steady value contributions to customers.

Phosphate Operations: In 2020, sales volume of phosphate fertilizers was 2.08 million tons, down by 10% over the corresponding period in 2019, resulted from a decrease in the scale of export phosphate operation caused by the increase in phosphate fertilizer production of North Africa. Through large-scale operation, the Group continued to strengthen its advantages in strategic centralized procurement of phosphate fertilizers. When the plants in Hubei, the main production region of phosphate fertilizers, were severely affected by the COVID-19 pandemic, the Group urgently allocated its global resources and imported high-quality Moroccan diammonium phosphate to ensure a stable supply of high-quality phosphate fertilizers in spring. The Group consolidated its customer base and continuously provided



services to its customers through activities such as online marketing and charity aid to farmers, enhancing its reputation among customers. The Group carried out value scheduling in phosphate fertilizer operations, provided comprehensive solutions centering on the demand of upstream and downstream customers, achieving a stable profit and customer value enhancement and further consolidating its position as a leading domestic distributor of phosphate fertilizers. The Group also made more efforts in promoting new technology-based products. Sales volume of Meilinmei, a new product that met the national requirements for “fertilizer application reduction and efficiency improvement”, was doubled consecutively in the three years since its launching. Another new product for efficiency improvement, Linbao, was also launched to foster a healthy development of phosphate fertilizers for efficiency improvement in China.

Fertex Operations: The Group continued to build Fertex, an industrial chain service platform, to provide consumers and enterprises in the industry with the most authoritative fertilizer index as well as industry information. It has 200,000 registered users and attracted long-tail customers. Pilot trials for online trading were running well. Through establishing a logistic platform to organize transportation capability efficiently with rapid increases in the number of registered service providers and registered vehicles, and providing gradually enriched information service and financial service products, the Group empowered traditional industries, built industry ecosystem and established industrial influence gradually.

Distribution Operations

The Distribution Division firmly promoted the DTS in-depth channels building strategy and gave full play to the diversified channels, supporting the steady and rapid development of the business. It accelerated the application of advanced technology, as well as the synergy among research, production and marketing, and formed a pipeline of research and development. The product structure was optimized which focused on differentiated products promotion. The transformation and upgrade of traditional channels was consistently propelled and service capacity was systematically built up. In addition, the Distribution Division actively cooperated with the internal resources of the Syngenta Group, jointly built core products with member enterprises, and carried out product portfolio sales aiming at key crops. The scale of crop protection business grew rapidly.

Compound Fertilizer Operations: In 2020, sales volume of compound fertilizers was 2.40 million tons, up by 5% year on year. The Group accelerated the channel layout in villages and towns, propelled its channels down closer to customers, enhanced the cooperation stickiness of large-scale growers, and explored cooperation with large-scale enterprises both within the industry and across industries. As the organization and implementation of traditional marketing activities were seriously affected by the COVID-19 pandemic, the Group quickly planned online marketing and increased promotion efforts on differentiated products. The Group increased its R&D investment in bio-technological applications, and achieved



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a rapid growth in sales volume of crop-oriented and differentiated products. To accelerate the construction of production capacity layout, the high tower compound fertilizer project with an annual production capacity of 200,000 tons of Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd. was completed and put into operation, which further secured the steady supply of high-tech ecological in central China and southern China. With the synergy mechanism of production and marketing operating more efficiently, the utilization rate of production capacity was maintained at a relatively high level in the industry. Product cost management and quality control were better than expected, which effectively ensured the rapid and high-quality development of compound fertilizer business.

Special Fertilizer Operations: In 2020, sales volume of special fertilizers was 90,000 tons, up by 80% over the corresponding period in 2019. With the aim of promoting the sustainable development of agriculture in China, the Group continued to increase investment in R&D and production of new fertilizers. Leveraging on the innovation resources of the Linyi R&D Center, the Group continued to develop new and high-efficiency special fertilizers, and achieved a rapid increase in the sales of environment-friendly foliar products with high efficiency and rapid effect and suitable for spraying while the sales of soil improvement and soil health products increased significantly. In 2020, Sinochem Agriculture (Xinjiang) Biotechnology Co. Ltd.'s two new special fertilizer plants in Munus and Kashgar were successfully put into operation, providing strong product and technical support for Xinjiang's water-saving agriculture and cotton production.

Facing adverse factors such as the COVID-19 pandemic, the decline in crop prices and climate change, the Group took the advantage of its domestic distribution channel to propel its business model of "online promotion and offline services", which effectively satisfied the demand for the product and technology from growers, helping farmers to increase output and revenue. The Group will continue to increase innovation investment in the fertigation business and introduced remote communication and remote-control technologies to realize water conservation, fertilizer application reduction, saving labor and high output, making contribution to agricultural modernization and transformation.

The Group deeply understood the significance of the transformation and development of China's agricultural modernization, actively implemented the spirit of the Fifth Plenary Session of the 19th Central Committee

of the Communist Party of China on accelerating the modernization of agriculture and rural areas. It focused on the technical research and commercialization of microbial inoculants regulated soil activity and organic product, and strategically invested in Beijing Aerospace Hengfeng Technology Corp., Ltd., which has R&D capacity for the core technology of microbial agent, to help speed up the Group's R&D in biological fertilizer products. The Group vigorously carried out research in green agricultural planting techniques, and actively promoted technological achievements such as deep side fertilization, fertigation and soil improvement. More than 400 technical service personnel worked on the field all year round and conducted activities such as technical training, soil testing and formula-based fertilization as well as field guidance to help farmers grow good products and sell at good prices, so as to implement the original aspiration and mission of the Rural Revitalization Strategy.



Internal Control and Management

The Group's internal control and risk management system was built according to the "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission in the United States, ISO Risk Management Guidelines and the "Internal Control and Risk Management – A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants, as well as the "Central Enterprises Comprehensive Risk Management Guidelines", the "Basic Rules of Corporate Internal Control" and its referencing guidelines, and the "Central Enterprises Compliance Management Guidelines" of China and national requirements on strengthening internal control system establishment and supervision in recent years. Under the principle of "high priority, frequent monitoring and diversion as the main solution" and with risk management orientation, the Group paid attention to improving risk

and internal control management mechanism in line with the strategic development and integrated with business management. Through risk identification, assessment and response, the Group implemented a whole-process risk management, alert and response measures on material risks to serve its value creation.

In 2020, after joining Syngenta Group, the Group further promoted its management reform and business innovation, focused on optimization of internal control system and strengthened risk management and compliance supervision. Its risk and internal control system establishment was further deepened through strengthening group management and control, optimizing management system, improving supervision and evaluation system, increasing informatization, strengthening internal control audit and inspection, and conducting differentiated risk monitoring and assessment. The Group also actively promoted risk culture and raised risk awareness through various means, encouraged the management at all levels to build a safe operating environment in a scientific manner, and actively created a benign internal risk control atmosphere for “stable operation and healthy development”. The Group took “streamlining, high efficiency, accountability and controlled authority” as its orientation, identified risks, differentiated and improved its internal control system and process, embed risk management and compliance management requirements into its business process, and continuously strengthened its internal control and management work. Each business unit experienced risk and internal control authority, strengthened its accountability and made constructive exploration on its risk and internal control mechanism.

In 2020, the internal control and management of the Group met the compliance requirements of domestic and foreign regulatory agencies and ensured compliance and healthy development of its business. The Group’s internal control and management provided reasonable guarantee for adoption to changes in the market and operating environment, supporting of strategic transformation of the Group, protections of shareholders’ interests and asset safety, and improvement of business quality.

Corporate Social Responsibility

In 2020, the Group gave full play to its corporate social responsibility in the fight against the COVID-19 pandemic. The Group put the safety and health of its employees in the first place, and as at the date of this report, there was no employee diagnosed or suspected of being infected. Online and offline linkages of all business departments of the Group ensured the supply of agricultural inputs during spring ploughing period and contributed to a stable

production of agricultural products. The Group carried out charity activities to prevent the pandemic together with rural counties, delivered anti-epidemic supplies such as disinfectants to the Hubei region, and made total donation amounted to RMB209,800. The Party organizations at all levels and the employees responded actively and donated to regions severely affected by the COVID-19 pandemic in Hubei so that the local government departments could fund the local pandemic prevention and control.



The Group served the Chinese farmers wholeheartedly, and actively brought into play its influence and leading status in the industry. While developing its channels down closer to customers, the Group directly provided agricultural inputs to the grass-root level and ensured steady supply of products through its comprehensive agricultural inputs distribution and service network covering more than 95% of China’s arable land during the key period of spring cultivation, summer sowing and autumn harvesting seasons. The Group integrated high-quality resources and cooperated with international advanced enterprises of agricultural inputs to complement each other, provided farmers with comprehensive training service such as crop nutrition, crop protection and planting techniques, and gradually formed comprehensive crop planting solutions in different regions of the country, so as to help farmers reduce planting cost, improve yield quality and increase income. Meanwhile, the Group provided comprehensive and differentiated tailored services for large-scale growers and new planting entities to guide farmers to scientific fertilization. In 2020, the Group focused on the promotion of free soil testing service, field guidance, online and offline seminars as well as anti-

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counterfeiting activities, and together with the National Agricultural Technology Extension and Service Center, built pilot demonstration fields and launched training programs for new professional farmers, benefiting thousands of villages and towns.



The internationally advanced state-of-the-art Linyi R&D Center of the Group was completed and put into operation. With the goal of fertilizer application reduction and efficiency improvement as well as green and sustainable development, the Group cooperated with scientific research units such as the Chinese Academy of Agricultural Sciences to develop new products of crop nutrition and explore new scientific fertilization methods. Meanwhile, the Group cooperated with the Department of Crop Production, Ministry of Agriculture and the National Agricultural Technology Extension and Service Center, focusing on the joint demonstration and promotion of green high-efficiency product packages consisting of fertilizers and pesticides. Centering on the projects such as fertilizer application reduction and efficiency improvement, the use of bio-organic fertilizers in the production of fruits, vegetables and tea instead of chemical fertilizers as well as green production with high quality and efficiency and technology integration, the Group explored new mode of scientific fertilization through combining soil improvement with fertilizer application, and properly improved soil environment. By spraying a mixture of specialty fertilizers and pesticides with drone operation, the Group reduced the overall application of fertilizers and pesticides while saving the labor costs and increasing farmers' income. The Group focused on projects, including combination of agricultural techniques as well as agricultural machinery, and promotion of deep side fertilization for rice and fertigation, organized new business entities to jointly launch large-scale demonstration field tours in various regions, vigorously promoted agricultural mechanized production,

improved the utilization efficiency of fertilizer and water, and reduced pollution to agricultural environment. Through scientific use of soil improvement agents and organic fertilizers and conducting numerous pilot demonstrations and farmer trainings, the Group implemented cultivated land protection policies of the state.

In 2020, the Group actively fulfilled its corporate social responsibility, actively carried out donation, education-aid and other charity activities in rural areas, and contributed to the realization of the goal of strong agriculture, beautiful countryside and prosperous farmers. The Group donated RMB1 million in cash to the Red Cross Society of Chifeng for the purchase of intelligent irrigation system and supplementary agricultural equipment in Alu Kerqin Banner of Inner Mongolia, a targeted poverty alleviation county, donated RMB 203,300 of fertilizer to the disaster areas including Laiyang and Luochuan of Shandong Province, and carried out charity activities to help students in Xianfeng Town, Pulu Village, Fulu Village and Xundian County of Yunnan Province, donating RMB166,400. The Group supported development of Alu Kerqin Banner and other rural areas with the amount of poverty alleviation in the form of consumption reaching RMB968,300.



In the future, the Group will continue to focus on the requirement of modern agriculture development, actively implement the supply-side structural reform in agriculture, strive to serve farmers, promote high-quality agricultural development, help to guarantee agricultural production and supply as well as increase farmer's income. Centering on the goal of fertilizer and pesticide application reduction, the Group will deepen the cooperation with the Chinese government, research institutes and universities. In addition, the Group will put emphasis on key projects such as scientific fertilization, agricultural mechanized production, synergy of seeds, fertilizers and pesticides, fertigation, training on new type of farmers, drone operation service and social comprehensive agricultural services, integrate the internal and external resources, constantly make innovations regarding to service measures, and continue to provide high-quality, professional and high-efficiency comprehensive services for farmers in China.

The Group adhered to the basic national policy of protecting the environment and actively implemented clean production, upholding the basic principle of "people-oriented, prioritized environmental protection, prevention first, integrated governance". While preventing new sources of pollution, the Group constantly reduced the emission of pollutants through adopting advanced processes, technologies and equipments to establish an effective and persistent mechanism on environmental protection, actively responding to national policies. Sineochem Chongqing Fuling Chemicals Co., Ltd. actively promoted relocation for the sake of environmental protection, so as to create harmony between energy and the environment. In 2020, the Group fully achieved its energy-saving and emission reduction goals.

Outlook

In 2021, the global economy will continue to be impacted by the COVID-19 pandemic. However, with the development and distribution of vaccines as well as other efforts being made to mitigate the impact of COVID-19 and get the economy back on track around the world, China's economy is expected to remain resilient. The Chinese government will consolidate and expand its achievements in poverty alleviation. The focus of work in "agriculture, rural areas and farmers" will step into a new stage of comprehensive revitalization, high quality and informatization development of rural areas, while agricultural modernization will become a new development trend.

China's agricultural modernization is still in the primary stage and agricultural transformation is facing great pressures. Problems such as overcapacity, low circulation efficiency, lack of support services and information asymmetry still exist in the fertilizer industry. The industry is undergoing profound reform to enhance its concentration and accelerate the shutdown of companies with outdated production capacity. With a rapidly increasing demand for high efficiency and environmentally friendly differentiated products, all enterprises are accelerating technological innovation to upgrade products and improve competitiveness. The COVID-19 pandemic and accompanying global economic uncertainty have increased new planting entities' demands for agricultural modernization with increased demands for mechanization, scale and intelligence. Changes in market demand have promoted the transformation of dealers to provide integrated agricultural services to end users.

As China's leading technology-based marketing and service provider in crop nutrition, the Group will provide better services for farmers and industry customers through innovative channels and the Fertex platform for industrial chain services. It will construct core capabilities and build long-term competitiveness through product portfolios and markets, precise research and development, efficient supply chains and digital transformation. It will seize the opportunity presented by the relocation of Sinochem Fuling to achieve industrial upgrading. Finally, it will drive the supply of green and efficient fertilizers such as differentiated compound fertilizers, specialty fertilizers for crops and special fertilizers on the basis of maintaining the development of nitrogen, phosphate, potash basic fertilizers, to achieve the rapid growth of differentiated products.

With the advancement of the Rural Revitalization Strategy, 2021 is a year of opportunity. The economic situation is expected to improve. Under the framework of Syngenta Group China, the Group will use its global innovation capabilities to empower China's domestic solutions, enhance the industry's overall level of technological innovation, and promote the modernization and transformation of China's agriculture. As a Chinese local company, the Group is committed to becoming an innovative leader in crop nutrition in China and a strong contributor to the growth of Syngenta Group China, exploring a high-quality and sustainable agricultural development with Chinese characteristics.



MANAGEMENT'S DISCUSSION AND ANALYSIS



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For the year ended 31 December 2020, sales volume of the group was 12.17 Million tons, up by 5.73% over the corresponding period in 2019. Revenue was RMB21,381 million, down by 6.84% over the corresponding period in 2019.

For the year ended 31 December 2020, gross profit of the group was RMB1,987 million, down by 4.75% over the corresponding period in 2019. Profit attributable to owners of the company was RMB644 million, up by 4.55% over the corresponding period in 2019.



I. OPERATION SCALE

1. Sales volume

For the year ended 31 December 2020, sales volume of the Group was 12.17 million tons, up by 5.73% over the corresponding period in 2019. In 2020, the outbreak of the COVID-19 pandemic had an overall impact on agricultural production and demand. Affected by recession of the economy and the industrial chain, the price of fertilizers declined significantly. The Group adhered to its strategic development direction, timely adjusted business strategies, and modified logistics models in accordance with local conditions to overcome negative impacts of business environment as well as ensure the demand for fertilizer for arable land.



With the continuous adjustment of crop planting structure, the market demand for fertilizers had changed profoundly. Under the guidance of the concept of “In Science We Trust”, the Group implemented the call for “fertilizer application reduction and efficiency improvement” through innovation. The Group carried out differentiated products strategy, and concentrated on building a crop-oriented product system with the product structure transformed to environmentally friendly and high-efficiency fertilizers, enhancing the product competitiveness. For the year ended 31 December 2020, total sales volume of special fertilizers and differentiated fertilizers was 1.05 million tons, increased by 37% over the corresponding period in 2019. Thereinto, sales volume of special fertilizers was 90,000 tons, increased by 80% over the corresponding period in 2019. Sales volume of differentiated compound fertilizer was 640,000 tons, increased by 19% over the corresponding period in 2019. Sales volume of differentiated nitrogen fertilizer was 220,000 tons, up by 30% year on year, and sales volume of new type of phosphate fertilizer was 90,000 tons, up by 62% over the corresponding period in 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS

2. Revenue

For the year ended 31 December 2020, revenue of the Group amounted to RMB21,381 million, down by RMB1,570 million or 6.84% compared with the corresponding period in 2019, mainly resulted from a decrease in average selling price.

Table 1:

	For the year ended 31 December			
	2020		2019	
	Revenue RMB'000	As percentage of total revenue	Revenue RMB'000	As percentage of total revenue
Potash fertilizers	3,868,006	18.09%	3,842,063	16.74%
Nitrogen fertilizers	4,981,386	23.30%	5,336,601	23.25%
Compound fertilizers	5,703,913	26.68%	5,852,289	25.50%
Phosphate fertilizers	4,116,953	19.26%	5,004,695	21.81%
Monocalcium/Dicalcium phosphate (MCP/DCP)	826,843	3.87%	879,096	3.83%
Special fertilizers	413,785	1.93%	226,035	0.98%
Others	1,469,854	6.87%	1,810,163	7.89%
Total	21,380,740	100.00%	22,950,942	100.00%

3. Revenue and results by segment

The operating segments of the Group are divided into Basic Fertilizers Segment, Distribution Segment and Production Segment. Basic Fertilizers Segment is responsible for procurement and sales of straight fertilizers such as nitrogen, phosphate and potash. Distribution Segment is in charge of building of distribution channels, procurement and sales of compound fertilizers and new types of fertilizers. Production Segment is responsible for production and sales of fertilizers and MCP/DCP.

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 December 2020 and the year ended 31 December 2019.

Table 2:

	For the year ended 31 December 2020				
	Basic Fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Eliminations RMB'000	Total RMB'000
Revenue					
External revenue	13,350,776	6,506,377	1,523,587	–	21,380,740
Internal revenue	994,905	8,855	382,113	(1,385,873)	–
Segment revenue	14,345,681	6,515,232	1,905,700	(1,385,873)	21,380,740
Segment profit	510,218	150,033	225,850	–	886,101

	For the year ended 31 December 2019				
	Basic Fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Eliminations RMB'000	Total RMB'000
Revenue					
External revenue	14,589,804	6,243,042	2,118,096	–	22,950,942
Internal revenue	970,700	12,599	1,412,424	(2,395,723)	–
Segment revenue	15,560,504	6,255,641	3,530,520	(2,395,723)	22,950,942
Segment profit	493,717	107,577	265,110	–	866,404

Segment profit represents the profit earned by each segment without taking into account unallocated share of results of associates and joint ventures, unallocated expense/income and finance costs in relation to the unallocated interest-bearing borrowings and short-term commercial paper. This is the measure reported to the Group's chief operating decision-maker for the purposes of resource allocation and segment performance assessment.

For the year ended 31 December 2020, the segment profit of the Group was RMB886 million. In particular, the Basic Fertilizers Segment continued to strengthen its capability of logistics support, deepened the strategic procurement model, cooperated with suppliers to cut short the logistics procedures, and continuously increased the promotion of technology-based products. For the year ended 31 December 2020, the Basic Fertilizers Segment made a profit of RMB510 million, up by 3.24% over the corresponding period in 2019. The Distribution Segment extended its coverage in the core markets, relied on diversified channels to develop the markets where its presence was weak, promoted the transformation and upgrade of traditional channels, and continuously improve the contribution of volume and profit of differentiated products through the integration of research, production and sales. The Distribution Segment made a profit of RMB150 million in 2020, up by 38.89% over the corresponding period in 2019. Major fertilizer production subsidiaries of the Production Segment continued to strengthen basic work, kept a safe, continuous and stable operation, implemented process optimization, cost reduction and efficiency enhancement, and actively explored the market. The Production Segment made a profit of RMB226 million, down by 14.72% over the corresponding period in 2019, mainly attributable to the production suspension of Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling").

II. PROFIT

1. Share of results of joint associates and ventures

Share of results of associates: For the year ended 31 December 2020, the share of results of associates of the Group was a profit of RMB40 million, up by 100% from RMB20 million for the year ended 31 December 2019. The main reason was that the Group's share of results of Yangmei Pingyuan was a profit of RMB39 million in 2020, up by RMB21 million compared with the corresponding period in 2019.

Share of results of joint ventures: For the year ended 31 December 2020, the share of results of joint ventures of the Group was a profit of RMB40 million, significantly increased compared with the corresponding period of 2019. This was mainly due to the fact that Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Yunnan Three Circles") turned from loss into profit and significantly increased performance. In 2020, the Group's share of results of Yunnan Three Circles was a profit of RMB30 million, increased by RMB41 million year on year. The Group's share of results of Gansu Wengfu Chemical Co., Ltd. ("Gansu Wengfu") was a profit of RMB10 million, down by RMB1 million or 9% compared with the corresponding period in 2019.

2. Income tax

For the year ended 31 December 2020, income tax expense of the Group was RMB18 million, of which current income tax expense was RMB32 million and deferred income tax expense was RMB-14million. In 2020, the taxable profit of subsidiaries of the Group increased over the previous year due to an improvement of business performance. As a result, current income tax expense increased by 39.13% compared with the corresponding period in 2019.

The subsidiaries of the Group are mainly registered in Mainland China, Macao, Hong Kong, and Singapore respectively, where income tax rates vary. Among them, the tax rate of Mainland China is 25%, the Group's profit derived from Macao is exempted from profit tax, while the tax rates of Hong Kong and Singapore are 16.5% and 17%, respectively. The Group strictly complies with the taxation laws of the respective jurisdictions and pays taxes accordingly.

3. Profit attributable to owners of the Company and net profit margin

For the year ended 31 December 2020, profit attributable to owners of the Company was RMB644 million, up by 4.55% compared with a profit of RMB616 million in 2019, which represented a steady improvement in business performance in a tough market situation. Faced with fierce market competition and great transformation pressure, the Group adhered to the direction of strategic development, took various operational measures, increased shares of sales of differentiated products, enhanced customer service capabilities, carried out a series of technical reform as well as scientific and technological innovations, and constantly deepened business transformation.

For the year ended 31 December 2020, the net profit margin of the Group, calculated by dividing profit attributable to owners of the company by revenue, was 3.01%.

III. EXPENSES

For the year ended 31 December 2020, the three categories of expenses amounted to RMB1,451 million, decreased by RMB183 million or 11.20% from RMB1,634 million in 2019.

Selling and distribution expenses: For the year ended 31 December 2020, selling and distribution expenses amounted to RMB826 million, increased by RMB10 million or 1.23% from RMB816 million over the corresponding period in 2019. This was mainly attributable to the fact that in order to deepen collaboration and enhance channel service capability, the Group expanded the sales force and optimized the incentive plan, resulting in an increase in the total labor cost of sales personnel.

Administrative expenses: For the year ended 31 December 2020, administrative expenses amounted to RMB588 million, decreased by RMB60 million or 9.26% from RMB648 million over the corresponding period in 2019. This was due to the fact that the Group optimized management structure and improved efficiency. Also, the group actively took advantage of the preferential policies during COVID-19 pandemic to decrease social security payment, and thus total labor cost of management personnel was reduced by RMB25 million. Meanwhile, the production equipment was in good conditions, and the repair cost decreased by RMB20 million. Moreover, during the COVID-19 pandemic, there was a decrease in the number of offline meetings and business trips, resulted in a reduction in office expenses

Finance costs: For the year ended 31 December 2020, finance costs amounted to RMB37 million, decreased by RMB133 million or 78.24% from RMB170 million over the corresponding period in 2019. This was mainly due to a lean management of funds, decreasing average loan scale and interest rate, and a capitalization of loan interest payment derived from Sinochem Fuling relocation and other construction project.

IV. OTHER INCOME AND GAINS

This mainly consisted of interest income, sales of semi-finished products, raw materials and scrapped materials. For the year ended 31 December 2020, the Group's other income and gains amounted to RMB213 million, decreased by RMB23 million or 9.75% from RMB236 million over the corresponding period in 2019, which was mainly due to a decrease in interest income.

V. OTHER EXPENSES AND LOSSES

This mainly consisted of losses from assets impairment, changes in the fair value of forward foreign exchange contracts and disposal of fixed assets, raw materials and scrapped materials. For the year ended 31 December 2020, the Group's other expenses and losses amounted to RMB157 million, increased by RMB98 million or 166.10% from RMB59 million over the corresponding period in 2019. This was mainly due to the fact that the exchange rate of RMB against the US dollar rose sharply at the end of 2020, and thus the loss from fair value change of the Group's forward foreign exchange contract increased by RMB53 million over the corresponding period in 2019. Also, at the end of the year, the Group recognized provisions for impairment of some old-age inventories and fixed assets planned to be dismantled and scrapped, as a result, the impairment loss of assets has increased by RMB38 million compared with the previous year.

VI. INVENTORIES

As at 31 December 2020, the inventories balance of the Group amounted to RMB5,323 million, decreased by RMB52 million or 0.97% from RMB5,375 million as at 31 December 2019, mainly due to a decreasing average unit price of the inventories.

The Group continued to strengthen the coordination between procurement and marketing. In the light of possible impact of COVID-19 pandemic on the logistics in winter, the Group prepared the stock in advance at the end of 2020 to satisfy the demand for fertilizer in the next spring ploughing season. As at 31 December 2020, the inventory scale increased slightly compared with that at 31 December 2019. The inventory turnover days in 2020 was 99 ^(note) days, increased by 5 days compared with that in the corresponding period of last year.

Note: Calculated on the basis of average inventory balance as at the end of the reporting period divided by cost of goods sold, and multiplied by 360 days.

VII. TRADE AND BILLS RECEIVABLES

As at 31 December 2020, the balance of the Group's trade and bills receivables amounted to RMB572 million, increased by RMB166 million or 40.89% from RMB406 million as at 31 December 2019, mainly resulting from an increasing balance of bills receivable.

The turnover days of the Group's trade and bills receivables was 8 days^(Note) in 2020, 1 day slower than 7 days^(Note) in 2019. The Group actively prevented credit risk, and strengthened the review of credit approval and qualifications of the acceptance banks.

Note: Calculated on the basis of average trade and bills receivables balance as at the end of the reporting period divided by revenue, and multiplied by 360 days.

VIII. LOANS TO RELATED PARTIES

The Group's balance of loans to related companies was RMB1,620 million as at 31 December 2020. Sinochem Fertilizer, a subsidiary of the Group, provided an entrusted loan of RMB670 million to Yangmei Pingyuan through Sinochem Finance to supplement daily working capital, and provided a fund of RMB950 million to Sinochem Agriculture for its daily working capital and purchase of fixed assets. For details of loans to related parties, please see the "Connected Transactions" and "Major Discloseable Events" sections of the Director's Report.

IX. INTERESTS IN ASSOCIATES

As at 31 December 2020, the balance of the Group's interests in associates amounted to RMB619 million, increased by RMB86 million or 16.14% from RMB533 million as at 31 December 2019. In March 2020 and October 2020, the Group acquired 20% of equity interest in Beijing Aerospace Hengfeng Technology Corp., Ltd. ("Aerospace Hengfeng") at a total amount of RMB90 million to strengthen its cooperation with Aerospace Hengfeng in microbial fertilizers. On the other hand, due to the decision of profit distribution made by Yangmei Pingyuan, the Group's interests in Yangmei Pingyuan reduced by RMB41 million. In 2020, the share of results of associates was a profit of RMB40 million.

X. INTERESTS IN JOINT VENTURES

As at 31 December 2020, the balance of the Group's interests in joint ventures amounted to RMB395 million, increased by RMB40 million or 11.27% from RMB355 million as at 31 December 2019, which was mainly due to the fact that based on the equity method, in 2020, the Group's share of results of Yunnan Three Circles was a profit of RMB30 million, and the Group's share of results of Gansu Wengfu was a profit of RMB10 million.

XI. OTHER EQUITY SECURITIES

As at 31 December 2020, the balance of the Group's other equity securities amounted to RMB312 million, decreased by RMB79 million or 20.20% from RMB391 million as at 31 December 2019, which was mainly due to a decrease of RMB74 million in fair value of the equity interest of Guizhou Kailin (Group) Co., Ltd. held by the Group.

XII. OTHER LONG-TERM ASSETS

As at 31 December 2020, the total amount of the Group's other long-term assets amounted to RMB743 million, increased by RMB128 million, or 20.81%, from RMB615 million as at 31 December 2019, which was mainly due to that Sinochem Fuling, a subsidiary of the Group, recognized increasing land reclamation expense and relevant expenses incurred during the transitional period of the relocation under this account.

XIII. INTEREST-BEARING LIABILITIES

As at 31 December 2020, the Group's interest-bearing liabilities amounted to RMB1,767 million, decreased by RMB657 million or 27.10% from RMB2,424 million as at 31 December 2019, mainly due to a decreasing balance of the super short-term bond issued by Sinochem Fertilizer, a subsidiary of the Group. For detail information of the interest-bearing liabilities, please see the "XVI Liquidity and Financial Resources" section.

XIV. TRADE AND BILLS PAYABLES

As at 31 December 2020, the balance of the Group's trade and bills payables amounted to RMB2,426 million, decreased by RMB960 million or 28.35% from RMB3,386 million as at 31 December 2019, which was mainly due to the decrease in the balance of bills payables.

XV. OTHER FINANCIAL INDICATORS

The Group uses earnings per share and return on equity (ROE) to evaluate profitability, current ratio and debt-to-equity ratio to evaluate solvency, and the trade and bills receivables turnover days and inventory turnover days to evaluate operating capacity (see the inventory and trade and bills receivables part of Management's Discussion and Analysis). By analyzing financial indexes such as profitability, liquidity and capital adequacy as well as operating capacity, financial standing and operating results can be fully summarized and evaluated, the performance of the management can be effectively assessed and the maximum interest of the owners of the Group can be achieved.

Basic earnings per share was RMB0.0917 and return on equity (ROE) was 8.18% as at 31 December 2020, both increased compared with those in 2019.

Table 3:

	2020	2019
Profitability		
Earnings per share (RMB) <i>(Note 1)</i>	0.0917	0.0877
Return on equity <i>(Note 2)</i>	8.18%	8.16%

Note 1: Calculated based on profit attributable to owners of the Company for the reporting period divided by weighted average number of Shares for the reporting period.

Note 2: Calculated based on profit attributable to owners of the Company for the reporting period divided by the average equity attributable to owners of the Company as at the beginning and the end of the reporting period.

As at 31 December 2020, the Group's current ratio was 1.09, and the debt-to-equity ratio was 21.64%. The Group enjoyed relatively high banking facilities, and it had smooth financing channels and diversified fund-raising methods. The Group maintained a stable financial structure through actively taking various operating measures.

Table 4:

	As at 31 December	
	2020	2019
Solvency		
Current ratio <i>(Note 1)</i>	1.09	1.21
Debt-to-Equity ratio <i>(Note 2)</i>	21.64%	31.48%

Note 1: Calculated based on current assets divided by current liabilities as at the end of the reporting period.

Note 2: Calculated based on interest-bearing debt divided by total equity as at the end of the reporting period.

XVI. LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of financing included cash from business operation, bank borrowings and the issue of bonds. All the financial resources were primarily used for the Group's trading and distribution, production, repayment of liabilities and for related capital expenditures.

As at 31 December 2020, cash and cash equivalents of the Group amounted to RMB763 million, which was mainly denominated in RMB and US dollar.

Below is the analysis of interest-bearing liabilities of the Group:

Table 5:

	As at 31 December	
	2020	2019
	RMB'000	<i>RMB'000</i>
Short-term commercial paper	1,000,000	2,400,000
Bank loan	714,297	–
Lease liabilities	52,927	24,351
Total	1,767,224	2,424,351

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table 6:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Carrying amount of interest-bearing liabilities		
Within one year	1,754,821	2,423,308
More than one year	12,403	1,043
Total	1,767,224	2,424,351

Table 7:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Fixed-rate interest-bearing liabilities	1,767,224	2,424,351
Floating-rate interest-bearing liabilities	—	—
Total	1,767,224	2,424,351

As at 31 December 2020, the Group had banking facilities equivalent to RMB27,028 million, including US\$1,031 million and RMB20,301 million, respectively. The unutilized banking facilities amounted to RMB23,734 million, including US\$944 million and RMB17,573 million, respectively.

The Group planned to repay the above loan liability mainly with internal resources.

XVII. OPERATION AND FINANCIAL RISKS

The Group's major operation risks include the spread of the COVID-19 pandemic, slowdown in global economic growth, tightened external environment, economic and trade frictions one after another, intensified protectionism, internal integration within the Group, and adjustment of organization structure. Due to the supply-side structural reform and the policy of cutting overcapacity, economic growth slowed down and downward pressure continued to increase. Market competition in the fertilizer industry had been intensified under the background of fertilizer application reduction and efficiency improvement, energy conservation and environmental protection as well as acceleration of industry integration. The Group took initiative to cope with great changes in the domestic and international environment and steadily improve its business operation, boosting business confidence. On the one hand, the basic business strengthened the acquisition of resources, focused on deepening channels, expanded its business scale, brand status and profitability, and consolidated its market competitiveness; on the other hand, the Group continued to promote strategic transformation and resource integration, adjusted and optimized the industrial structure, promoted and enhanced innovative businesses such as technical services and Fertex to seek new growth methods, and enhanced the potential for business growth, which would reduce the negative impact of operation risks on the financial performance of the Group.

Besides, the Group's major operation risks include: environmental and social risks, cyber risk and security, and risks associated with data fraud or theft.

Environmental and social risks

With the increasingly strict requirements on environmental protection management and continuously strengthening efforts in pollution control from the government, the enterprises were required to attach great importance to various environmental protection work in the process of production and operation. The subsidiaries of the Group, engaged in resource development and fertilizer production, strictly complied with laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China as well as the Water Pollution Prevention and Control Law of the People's Republic of China. By strict investigation and management on corporate environmental risk sources, they implemented specific control measures to prevent and control pollution of air, surface water, underground water and soil. In addition, they formulated emergency plans for sudden environmental pollution incidents, equipped themselves with necessary emergency disposal materials, seriously performed emergency response drills, and implemented measures such as promptly launching emergency plans to limit production during heavy pollution weather. No environmental pollution accident occurred throughout the year of 2020.

Cyber risk and security

With the continuous improvement in information technology of enterprises, the network structure is more and more complicated, and the number of information systems is multiplied. Therefore, the possibility of internet failure and system breakdown is also rapidly increasing. The Group vigorously develops innovative business to enhance its market influence, and meanwhile, the risk from cyberattacks to the information system increases.

The Group continuously optimizes the information system to enhance the capability of cyber security protection and emergency response. Meanwhile, the Group regularly conducts cyber security inspections and other related work, and accomplishes security protection of the application system as well as the network inside and outside the office according to the protection requirements at different levels so as to minimize cyber risk and avoid cyber security incidents.

Risks associated with data fraud or theft

In order to keep state secrets and trade secrets, the Group has established a relatively complete confidentiality system, including Administrative Measures on Confidentiality and Catalog of Trade Secrets.

The Group takes various promotional and educational measures annually to enhance the employees' awareness of information confidentiality and to urge the employees to be alert. The Group selects certain subsidiaries and assesses their information confidentiality work every year. Through interviews with the employees related with confidentiality, examination on relevant regulations and record documents, reviews on previous confidential documents and on-site observation, the Group conducts investigation on the arrangement of institutions and personnel, establishment of information confidentiality system, secret classification management, information system management, and requires the units under investigation to submit rectification reports within a time limit.

The Group's major financial risks include: market risk, credit risk and liquidity risk.

Market risk

Market risk includes currency risk, interest rate risk and other price risk. Currency risk represents unfavorable change in exchange rate that may have an impact on the Group's financial results and cash flow; interest rate risk represents the unfavorable change in interest rate that may lead to changes in the fair value of fixed rate borrowings and other deposit; and other price risk represents the Group's risk related to the value of equity investments, which mainly derived from investments in equity securities.

Majority of the Group's assets, liabilities and transactions are denominated in RMB, US dollar, HK dollar and Singapore dollar. Due to the presence of a certain scale of import and export business of the Group, the exchange rate fluctuations have an impact on the cost of import and export revenue. The management of the Group has always taken prudent measures such as spot purchase of foreign exchange and foreign exchange forward to deal with exchange rate risk, and continued to monitor and control the above risks so as to mitigate the potential unfavorable impact on the Group's financial performance.

Credit risk

The biggest credit risk of the Group is subject to that the counterparties may fail to carry out their obligations with regard to the book value of all types of financial assets recognized and recorded in the consolidated statement of financial position on 31 December 2020. Once the management on credit risk is missing, bad debt losses may influence the normal running of the Group as a result of uncollectible accounts and unavailable inventory after advance payment.

The Group has complete management procedures and response mechanisms in respect of credit evaluation of credit customers, granting credit line and credit period, transaction management and control, process monitoring, collection of overdue accounts and other related aspects. The Group develops adequate risk management strategies and measures to prevent and control the risk, continuously allocates more credit resources to strategic and high-quality core customers/suppliers, speeds up operational turnover efficiency, and transfers bad debt risks by proper utilization of various risk protection measures so as to ensure the effective follow-up of credit business. The Group checks the recoveries of accounts receivable and prepaid accounts for major trading operations at monthly settlement date to ensure that there is sufficient provision for bad debts for unrecoverable accounts, and thus the Group's credit risk rarely occurs.

Liquidity risk

Liquidity risk may lead to inadequate capital to meet the demand of daily working capital and repayment of debt at maturity. Therefore, the Group took the following measures:

Regarding the management of liquidity risk, the management strengthened position management of ready cash, forecasted and strictly executed the fund plan to monitor and keep enough cash and cash equivalents, increased the scale of advance received in sales season to maintain adequate operating cash flow. The management reasonably allocated short and long-term fund demands, and optimized capital structure to meet the demand of working capital and repayment of bonds at maturity.

XVIII. CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no contingent liabilities.

XIX. CAPITAL COMMITMENT

Table 8:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Contracted but not provided for		
– Property, plant and equipment	1,108,545	278,169
Authorized but not contracted for		
– Property, plant and equipment	1,120,537	1,425,975
Total	2,229,082	1,704,144

The Group plans to finance the above capital expenditure by internal and external resources, and has no plan for other material investment or capital expenditures.

XX. MATERIAL INVESTMENTS

As of 31 December 2020, total expenditures of Sinochem Fuling on project with an annual production capacity of 200,000 tons of fine phosphate and supporting new-type special fertilizers, located in Baitao Industrial Park of Fuling, Chongqing, had accumulated to RMB282 million, and the amount of its recycled production devices and equipments from old plants was RMB75 million. According to the relocation investment plan, the total investment of the project is RMB3,292 million, and all required funds was raised by Sinochem Fuling.

XXI. HUMAN RESOURCES

As at 31 December 2020, the Group had about 5,113 full-time employees (including those employed by the Group's subsidiaries), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration. For details of the remuneration policy of the Group, please refer to the Corporate Governance Report of this annual report on page 62.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS OF THE COMPANY

Mr. J. Erik FYRWALD – Non-executive Director and Chairman of the Board

Mr. J. Erik FYRWALD, aged 61, was appointed as a Non-executive Director and the Chairman of the Board of the Company on 2 November 2020. Mr. Fyrwald received a bachelor of science degree in chemical engineering from the University of Delaware in 1981, and completed the advanced management program at Harvard Business School in 1998. Mr. Fyrwald has been serving as chief executive officer of Syngenta Group since 2020, and was previously chief executive officer of Syngenta AG from 2016 until it was consolidated into Syngenta Group. Prior to joining Syngenta AG, he served as president and chief executive officer of Univar Solutions Inc. (a company listed on the New York Stock Exchange (the “NYSE”) under the ticker symbol: UNVR) from 2012 to 2016. He previously served as president of Ecolab Inc. (a company listed on the NYSE under the ticker symbol: ECL) from 2011 to 2012, and as chairman, president and chief executive officer of Nalco Company from 2008 to 2011. He held various positions in E.I. DuPont de Nemours and Company (a company listed on the NYSE under the ticker symbol: DD) from 1979 to 2008, including group vice president of its agriculture and nutrition division from 2003 to 2008. Mr. Fyrwald has been involved in the agriculture inputs industry for 16 years and has extensive experience in corporate governance.

Other than the directorship in the Company, Mr. Fyrwald has been serving as an independent director of Eli Lilly and Company (a company listed on the NYSE under the ticker symbol: LLY) since 2005, an independent director of Bunge Limited (a company listed on the NYSE under the ticker symbol: BG) since 2018, and a director and chairman of ADAMA Ltd. (a company listed on the Shenzhen Stock Exchange under the stock code: 000553) since April 2020. Mr. Fyrwald also serves on the board of directors of a number of non-profit organizations, including Syngenta Foundation, United Nations World Food Program Farm to Market Alliance, Swiss-American Chamber of Commerce and CropLife International.

DIRECTORS AND SENIOR MANAGEMENT

Mr. QIN Hengde – Executive Director and Chief Executive Officer, and Chairman of Corporate Governance Committee

Mr. QIN Hengde, aged 50, was appointed as an Executive Director and Chief Executive Officer of the Company in December 2016, in charge of the Company's overall operation. Currently, he is also the Chairman of the Corporate Governance Committee of the Company. Mr. Qin graduated from the Economic Management Department of East China Institute of Technology with a bachelor's degree in accounting in 1991, from Huazhong University of Science and Technology with a master's degree in industrial engineering in 2002, and obtained an EMBA from China Europe International Business School in 2011. From November 1991 to July 2004, Mr. Qin served in various positions as assistant to the director of the finance department, director of the finance department, and deputy chief accountant of Hubei Hongqi Cable Factory, chief accountant of SDIC Yuanyi Industry Co., Ltd., and deputy general manager of the investment management department of D'Long International Strategic Investment Co., Ltd.. From July 2004 to December 2016, Mr. Qin served successively as the general manager of the business development department, financial controller, vice president, executive vice president and president of Sinochem International Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600500); from November 2016 to January 2017, he was a director and the non-executive chairman of Halcyon Agri Corporation Ltd. (a company listed on the Singapore Stock Exchange); and from September 2008 to November 2016, he served successively as a director and non-executive chairman of GMG Global Ltd.; from December 2016 to April 2019, he was an executive director of China National Seed Group Co., Ltd., a subsidiary company of Sinochem Group. Mr. Qin is a senior accountant, and has rich experience in strategy and investment, merger and acquisition management and financial management. Mr. Qin is also a director of a subsidiary of the Company.

Other than the abovementioned positions in the Company, currently Mr. Qin is also the non-independent director and the chairman of the board of Win-all Hi-tech Seed Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300087), the chairman of the board of Jiangsu Yangnong Chemical Co., Ltd. (a company listed on the Shanghai Stock Exchange, stock code: 600486), and the president of China Region of Syngenta Group. Mr. Qin was the director and the vice chairman of Qinghai Salt Lake Industry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000792) from May 2017 to February 2021.

Mr. FENG Mingwei – Executive Director

Mr. FENG Mingwei, aged 58, was appointed as an Executive Director of the Company on 25 February 2020. He was also appointed as a member of the Corporate Governance Committee of the Company on 2 November 2020. Mr. Feng graduated from Beijing University of Iron and Steel Technology in 1987 majoring in automation, and acquired a postgraduate diploma in world economics from Renmin University of China in 1998. In 1984, Mr. Feng joined Sinochem Group, in which he had held positions in the finance department and the representative office in Pakistan. He subsequently served as the sales manager in the business department of SC Polymers Inc. and the deputy general manager of Sinochem Plastic Ltd.. Mr. Feng joined Sinochem Fertilizer in December 2001, and had held positions of the deputy general manager of the import department, the general manager of the first fertilizer department, the general manager of the potash fertilizer department and an assistant to the general manager of Sinochem Fertilizer. Mr. Feng served as the deputy general manager of the Company from May 2007 to December 2019. Mr. Feng has been deeply involved in marketing and team building for more than 30 years. He has a profound understanding of the supply and demand of fertilizers in both domestic and international markets, as well as the market development trend, possesses strong capability and extensive practical experience in strategic procurement, distribution service, logistics and financial support. Mr. Feng is concurrently the vice chairman of the Chinese Society of Plant Nutrition and Fertilizer Science and the executive vice president of Potash Branch of China Inorganic Salts Industry Association, with strong influence in the potash fertilizer industry. Mr. Feng is also a director of various subsidiaries of the Company.

Other than the abovementioned positions in the Company, currently, Mr. Feng is also a director of Qinghai Salt Lake Industry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000792) and has been elected as its vice chairman since February 2021. Mr. Feng has also been the vice chairman of China Region of Syngenta Group since June 2020.

Mr. Harry YANG – Executive Director

Mr. Harry YANG, aged 58, was appointed as an Executive Director of the Company in March 2006. He is also a member of the Nomination Committee and the Corporate Governance Committee of the Company. Mr. Yang graduated from the University of International Business and Economics in 1989 with a master's degree in International Business English. Mr. Yang joined Sinochem Group in 1989 and served successively as the general manager of Sinochem (USA) Inc. and Sinochem International London Oil Co., Ltd., and the director, general manager and vice chairman of the board of US Agri-Chemicals Corporation. From November 2002 to January 2017, Mr. Yang served as Deputy General Manager and General Counsel of the Company. Mr. Yang has served Sinochem Group for more than twenty years. He possesses years of experience in international trade and fertilizer business with a deep understanding of the international fertilizer market.

DIRECTORS AND SENIOR MANAGEMENT

Mr. KO Ming Tung, Edward – Independent Non-executive Director and the Chairman of Nomination Committee

Mr. KO Ming Tung, Edward, aged 60, was appointed as an Independent Non-executive Director of the Company in April 2000. He is also the Chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ko obtained an external bachelor of Laws degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practicing as a solicitor in Hong Kong for more than 29 years.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of EverChina Int'l Holdings Company Limited, Chia Tai Enterprises International Limited and Sterling Group Holdings Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange in Hong Kong. In the last three years, Mr. Ko was an independent non-executive director of Zioncom Holdings Limited and Wai Chun Group Holdings Limited, whose shares are listed on the GEM Board and the Main Board of the Stock Exchange in Hong Kong, respectively.

Mr. LU Xin – Independent Non-executive Director and the Chairman of Remuneration Committee

Mr. LU Xin, aged 57, was appointed as an Independent Non-executive Director of the Company in February 2015. He is also the Chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Company. Mr. Lu graduated from Dongbei University of Finance and Economics in China in 1987 with a bachelor's degree in Economics, and has been awarded a master of business administration by the University of South Australia in 2006. Mr. Lu worked for the Ministry of Finance of the People's Republic of China from 1987 to 1992, and China Trust and Investment Corporation for Economic Development from 1992 to 1995. Since 1995, Mr. Lu has successively served as the assistant general manager, deputy general manager and managing director of Golden Sino (Holdings) Limited. From 2001 to 2004, Mr. Lu was the executive director and deputy chairman of the Board and the managing director of the Company (formerly known as Wah Tak Fung Holdings Limited). From 2008 to 2010, Mr. Lu was an independent non-executive director of Sino Resources Group Limited, and currently he is an investment consultant of Wai Chun Group Holdings Limited, both companies are listed on the Main Board of the Stock Exchange in Hong Kong. At present, Mr. Lu Xin is also the chairman of the board of directors of World International Consulting Limited. Mr. Lu has over 28 years of experience in finance, investment and corporate management with extensive knowledge about economic activities of Hong Kong and Mainland China.

Mr. TSE Hau Yin, Aloysius - Independent Non-executive Director and the Chairman of Audit Committee

Mr. TSE Hau Yin, Aloysius, aged 73, was appointed as an Independent Non-executive Director of the Company in June 2007. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Tse is a graduate of the University of Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is the past president and a former member of the audit committee of the HKICPA. Mr. Tse joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is also a member of the International Advisory Council of The People's Municipal Government of Wuhan.

Other than the directorship in the Company, currently, Mr. Tse is also an independent non-executive director of CNOOC Limited, China Telecom Corporation Limited, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are companies whose shares are listed on the Stock Exchange in Hong Kong. In addition to the above, Mr. Tse is currently an independent non-executive director of CCB International (Holdings) Limited, a wholly-owned subsidiary of China Construction Bank Corporation whose shares are listed on the Stock Exchange in Hong Kong and an independent non-executive director of OCBC Wing Hang Bank Limited (formerly known as Wing Hang Bank Limited), which was listed on the Main Board of the Stock Exchange in Hong Kong until October 2014. From 2004 to 2010, Mr. Tse was an independent non-executive director of China Construction Bank Corporation, which is listed on the Main Board of the Stock Exchange in Hong Kong. From May 2005 to December 2016, he was an independent non-executive director of Daohe Global Group Limited, which is listed on the Main Board of the Stock Exchange in Hong Kong.

SENIOR MANAGEMENT OF THE COMPANY

Mr. GAO Jian – Chief Financial Officer

Mr. GAO Jian, aged 50, is the Chief Financial Officer of the Company. Mr. Gao graduated from Chongqing Institute of Industrial Management in 1993 with a bachelor's degree and obtained a master's degree in business administration from Renmin University of China in 2002. Mr. Gao worked in Wuzhou Engineering Design and Research Institute from 1993 to 1999. In 1999, he joined China Chemical Import and Export Corporation and had worked in investment department and finance department. Mr. Gao had previously acted as deputy general manager of the finance department in Qinghai Salt Lake Industry Group Co., Ltd. and deputy director (a temporary position) in the Working Bureau of Supervisory Panel of the State-owned Assets Supervision and Administration Commission of the State Council. From June 2008 to July 2011, Mr. Gao joined Sinochem Lantian Co., Ltd. as the chief financial officer. Mr. Gao has been the non-executive director of Qinghai Salt Lake Industry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000792) since February 2021. Mr. Gao joined the Company in July 2011 and was appointed the present position.

Mr. MA Yue – Deputy General Manager

Mr. MA Yue, aged 41, is the Deputy General Manager of the Company. Mr. Ma graduated from Beijing Jiaotong University in July 2001 with a bachelor's degree in management science & engineering and from Tsinghua University with an EMBA in April 2013. Mr. Ma joined Sinochem Fertilizer in July 2001, and successively served as general managers of Anhui Branch, Henan Branch, Hainan Branch, distribution & management department, network and logistics management department, network development department, network business department, and as general manager of Jiangsu Branch, and as assistant to the general manager of Sinochem Fertilizer. Mr. Ma has been the vice chairman of China Region of Syngenta Group since June 2020. Mr. Ma was promoted to his present position in January 2017.

Mr. WANG Li Gang – Deputy General Manager

Mr. WANG Li Gang, aged 49, is the Deputy General Manager of the Company. Mr. Wang graduated from Tianjin University with a bachelor's degree in polymer chemistry in 1993 and a master's degree in polymer materials in 2001. Mr. Wang began his career in 1993 and worked for Sinopec Beijing Yanshan Petrochemical Co. Ltd. from 1993 to early 2014. Mr. Wang joined the Company in June 2014 and successively served as the general managers of corporate management department, HSE and production management department, Sinochem Yunlong Co., Ltd. and Sinochem Jilin Changshan Chemical Co., Ltd., and the chairman of Chongqing Fuling Chemical Co., Ltd. (all these companies are subsidiaries of the Company). Mr. Wang has been the HSE director of China Region of the Syngenta Group since November 2020. Mr. Wang became the assistant general manager of the Company in January 2017 and was promoted to his present position in May 2020.

Ms. CHEN Sheng Nan – Deputy General Manager

Ms. CHEN Sheng Nan, aged 42, is the Deputy General Manager of the Company. Ms. Chen graduated from Nankai University with a bachelor's degree in chemistry in July 2000 and with a master's degree in polymer physics and chemistry in July 2003. Ms. Chen began her career and joined Sinochem Fertilizer in July 2003 and successively served as a staff member of the potash fertilizer department, assistant to the general manager of the potash fertilizer business department, deputy general manager, executive deputy general manager and general manager of the potash fertilizer department, and has been the general manager of the fertilizer import department of Sinochem Group since March 2016. Ms. Chen has been the assistant general manager and deputy general manager of the Basic Fertilizers Division of the Group since January 2017 and was promoted to her present position in May 2020.

Ms. WANG Fang – Deputy General Manager

Ms. WANG Fang, aged 48, is the Deputy General Manager of the Company. Ms. Wang graduated from Guizhou University of Finance and Economics with a bachelor's degree in trade and economics in July 1994 and obtained a master's degree in business administration from Guizhou University in July 2005. Ms. Wang began her career in July 1994 and previously served as a staff member of the sales and transportation department, manager of the marketing department of the sales company, assistant to the general manager and head of general office, and deputy general manager of Wengfu (Group) Limited Liability Co.. Ms. Wang joined Sinochem Fertilizer in March 2012 and previously served as positions such as deputy general manager of phosphate compound fertilizer department, deputy general manager (presiding over the work) of phosphate fertilizer department and general manager of phosphate fertilizer department. Ms. Wang has been the assistant general manager and deputy general manager of the Basic Fertilizer Division of the Group since January 2017 and was promoted to her present position in May 2020.

CORPORATE GOVERNANCE REPORT

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited and its board of directors are committed to maintaining a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practices on corporate governance, and compliance with the applicable corporate governance standards contained in relevant codes as set out in the Listing Rules of the Stock Exchange.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules sets out the principles of good corporate governance, and two levels of recommendations: (a) code provisions; and (b) recommended best practices. It also includes the mandatory disclosure requirements and recommended disclosures in respect of corporate governance for listed companies. For the year ended 31 December 2020 and up to the date of this report, the Company has complied with the applicable code provisions set out in the Corporate Governance Code, except for the deviations from the code provisions A.1.7 and E.1.2 as described below.

The code provision A.1.7 stipulates that, if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. During the year and up to the date of this report, the Board approved certain connected transactions and continuing connected transactions by circulation of written resolutions in lieu of physical board meetings, for which certain Directors who also held senior positions in the controlling or substantial shareholders of the Company were regarded as having material interests therein. As the Directors of the Company are living and working far apart, adoption of written resolutions in lieu of physical board meetings allows the Board to make a decision relatively quicker in response to the rapid change in the fertilizer markets. Before formal execution of the written resolutions, the Directors (including the independent non-executive Directors) had discussed the matters via emails and made amendments to the terms of the transactions as appropriate.

The code provision E.1.2 provides that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. On 11 January 2019, Mr. Zhang Wei, the then Chairman of the Board resigned as a Non-executive Director and Chairman of the Board of the Company. Following Mr. Zhang's resignation, Mr. Yang Lin has been authorized to assume the role and duties of the Chairman until Mr. J. Erik Fyrwald was appointed as the Chairman of the Board on 2 November 2020. In the annual general meeting of the Company held on 14 May 2020 (the "2020 AGM"), Mr. Yang Lin did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2020 AGM, Mr. Yang Lin authorized and the Directors attending the meeting elected Mr. Harry Yang, the Executive Director of the Company, to chair the meeting. Respective chairmen or representatives of the audit, remuneration, nomination and corporate governance committee of the Company were present at the 2020 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors, and the Directors have confirmed that they had complied with the required standards set out in the Model Code for the year under review.

The Company has also adopted written guidelines on no less exacting terms than the Model Code for relevant employees. During the year, no incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

BOARD OF DIRECTORS

The Board of Directors of the Company directs, monitors and supervises the management, business, strategic planning and financial performance of the Company and its subsidiaries, and the Board considers that enhancing value for shareholders is a duty of the Directors.

Board composition

As at 31 December 2020, the Board consisted of seven members, including three Executive Directors, namely Mr. QIN Hengde, Mr. FENG Mingwei and Mr. Harry YANG, one Non-executive Director, Mr. J. Erik FYRWALD, and three Independent Non-executive Directors, namely Mr. KO Ming Tung, Edward, Mr. LU Xin and Mr. TSE Hau Yin, Aloysius.

During the year ended 31 December 2020, changes occurred in the composition of the Board as follows:

1. On 25 February 2020, Mr. Feng Mingwei was appointed as an Executive Director of the Company. Mr. Feng's appointment was subsequently re-elected by the shareholders of the Company in the annual general meeting held on 14 May 2020.
2. Following the resignation of Mr. Zhang Wei on 11 January 2019, Mr. Yang Lin, a then Non-executive Director of the Company, was authorized to assume the role and duties of the Chairman until a new Chairman was appointed. On 2 November 2020, Mr. Yang Lin tendered his resignation as a Non-executive Director and a member of the Remuneration Committee of the Company due to adjustment of work arrangements. On the same date, Mr. J. Erik Fyrwald was appointed as a Non-executive Director and the Chairman of the Board of the Company. Mr. Fyrwald's appointment was subsequently re-elected by the shareholders of the Company in a special general meeting held on 18 December 2020.

The biographical details of the current Directors are set out on pages 45 to 49 of this annual report.

Executive Directors

All of the Executive Directors possess the qualification and experiences in their respective areas of responsibility, have extensive experience in corporate management and operations, and have good knowledge on the operations and structure of the Group. Under the leadership of the Chairman of the Board, the Executive Directors are able to maintain the effective management of the Group's business.

Non-executive Director

The Non-executive Director of the Company is experienced and professional in the relevant business of the Group, who provide professional opinion and analysis to the Board effectively.

Independent Non-executive Directors

All of the three Independent Non-executive Directors are experienced professionals with different expertise in accounting, finance and legal aspects. Their mix of skills and experience, and their independent view on matters of the Group provide constructive comments and suggestions to the Board and safeguard the interests of the shareholders in general and the Company as a whole.

Appointment, re-election and removal of Directors

The current term of office for the Executive Directors and the Non-executive Directors (including the Independent Non-executive Directors) of the Company is fixed for three years. Pursuant to the Bye-laws of the Company, every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years, and shall be subject to re-election by shareholders at the annual general meeting.

A person may be appointed as a member of the Board at any time either by the shareholders in a general meeting or by the Board upon recommendation by the Nomination Committee of the Company. Directors who are appointed by the Board shall be subject to election by shareholders at the first general meeting after their appointment.

Independence of the Board

The Board has received from each of the Independent Non-executive Directors a written annual confirmation of their independence in accordance with Rule 3.13 of the Listing Rules, and believed that their independence satisfied the guidelines as stipulated in the Listing Rules up to the date of this report.

The Board has noticed that Mr. Ko Ming Tung, Edward, Independent Non-executive Director of the Company, has served the Board for more than 20 years and Mr. Tse Hau Yin Aloysius, Independent Non-executive Director of the Company, has served the Board for more than 13 years. Pursuant to code provision A.4.3 of the Corporate Governance Code, inter alia, having served the company for more than 9 years could be relevant to the determination of a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. In this regard, the re-appointment of each of Mr. Ko and Mr. Tse as Independent Non-executive Director of the Company were approved by shareholders in separate resolution at the annual general meeting of the Company held on 7 June 2018. In assessing the independence of Mr. Ko and Mr. Tse, the Board took into account the fact that Mr. Ko and Mr. Tse have not engaged in any executive management of the Group, and have demonstrated their ability to provide independent view to the Company's matters during their terms of office with the Company. The Board believes that Mr. Ko and Mr. Tse are independent with the Company and have complied with the independence requirements of Rule 3.13 of the Listing Rules. In accordance with the Bye-laws of the Company, Mr. Ko and Mr. Tse will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

After the Change of Controlling Shareholder took place on 17 June 2020, Syngenta Group and ChemChina have become the indirect and ultimate controlling shareholders of the Company respectively, and Sinochem Group had ceased to own any equity interest in the Company. For the year ended 31 December 2020 and within the durations of service with the Company of the respective Directors, Mr. Yang Lin held directorships or other positions in Sinochem Group; Mr. J. Erik Fyrwald, Mr. Qin Hengde and Mr. Feng Mingwei each held senior positions in Syngenta Group.

Save as described above, there is no other relationship among the members of the Board and, in particular, between the Chairman and the Chief Executive Officer.

Division of the responsibilities between the Board of Directors and the management

The Board is responsible for reviewing and approving the Company's strategy management, financial management, investment management, asset disposal and other matters, implementing the resolutions passed in the general meetings and supervising the management team; and the management team under the leadership of the Chief Executive Officer is responsible for formulating the strategic plan and operation goals of the Company, compiling and executing the annual budget and setting out annual investment policies, etc..

Responsibilities of Chairman and Chief Executive Officer

The Board has authorized the management team to handle daily operational matters under the instruction and supervision of the Chief Executive Officer. Mr. Yang Lin who assumed the role and duties of the Chairman from 11 January 2019 to 2 November 2020, and Mr. J. Erik Fyrwald who was appointed as the Chairman of the Board on 2 November 2020, were responsible to lead and ensure the effective management of the Board. Mr. Qin Hengde as the Chief Executive Officer, was responsible for the effective implementation of the policies formulated by the Board and the management of the businesses and operations of the Group.

During the year, Mr. J. Erik Fyrwald met once with all Independent Non-executive Directors of the Company without Executive Directors' present and discussed about the overall business development of the Company and the effectiveness of the management team of the Company, and listened to the expectations from Independent Non-executive Directors regarding the future prospects of the Group after the Change of Controlling Shareholder of the Company effective from June 2020.

Major duties of the Board

The Board is primarily responsible for the following matters:

1. to approve and monitor the strategic plans of the Group;
2. to review the financial performance and results of the Group;
3. to review the dividend policy of the Company;
4. to approve and monitor material acquisitions, investment, asset transactions and any other significant expenditures of the Group; and
5. to supervise internal risk management policy of the Group.

The Board is also responsible for overseeing the preparation of the annual consolidated financial statements which ensures a true and fair view of the state of affairs and of the results and cash flows of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2020, the Board have:

1. approved the adoption of the applicable Hong Kong Financial Reporting Standards;
2. selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;
3. made judgements and estimates that are prudent and reasonable, and ensured the consolidated financial statements are prepared on a going concern basis; and
4. ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

The Board recognizes that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensive vision of the performance, position and prospects of the Group in all corporate communications.

Continuous professional development

The Company considers continuous professional development is important for Directors in maintaining up-to-date knowledge on the business operations of the Company as well as the regulations in the capital market. In this regard, the Company provided professional training to Directors and regular updates on new issues and/or changes in the regulatory environments, including a formal and comprehensive induction programme to two newly appointed Directors, Mr. J. Erik Fyrwald and Mr. Feng Mingwei, for the purpose of giving an overview of the business and operations of the Group and a proper understanding of their responsibilities and obligations under the Listing Rules, Corporate Governance Code and applicable laws and regulatory requirements. During the year, the Company also arranged and funded a seminar, which was conducted by a professional legal firm, on the recent developments on the regulatory rules for listed companies in Hong Kong. All then existing Directors have attended the seminar.

In addition, during the year ended 31 December 2020, the Directors participated in continuous professional development to develop and refresh their knowledge and skills, which ensure that their contributions to the Board remain informed and relevant. Listed below are certain seminars or forums participated by the Directors during the year:

Name of Director	Seminar/Forum	Organizer
J. Erik Fyrwald (Note 2)	Memorandum on Duties and Responsibilities of Directors of a Listed Company in Hong Kong	The Company
Yang Lin (Note 2)	央企總會計師培訓班	State-owned Assets Supervision and Administration Commission of the State Council
Qin Hengde	Connected Transaction Rules	Stock Exchange
	Notifiable Transaction Rules	Stock Exchange
	數字化轉型領導層工作坊	Sinochem Fertilizer
	領導力工作坊	Sinochem Fertilizer
Feng Mingwei (Note 1)	Memorandum on Duties and Responsibilities of Directors of a Listed Company in Hong Kong	The Company
	Duties of Directors and Role and Function of Board Committees	Stock Exchange
	Risk Management and Internal Control, ESG Reporting	Stock Exchange
Harry Yang	Connected Transaction Rules	Stock Exchange
	Notifiable Transaction Rules	Stock Exchange
	Exchange's New ESG Requirements	Stock Exchange

CORPORATE GOVERNANCE REPORT

Name of Director	Seminar/Forum	Organizer
Ko Ming Tung, Edward	Environmental, Social and Governance (ESG) Reporting	Hodgson Impey Cheng Limited
	The KPMG INED Forums	KPMG
	Resilience and recovery in the wake of COVID-19 pandemic	Deloitte Touche Tohmatsu
Lu Xin	Connected Transaction Rules	Stock Exchange
	Notifiable Transaction Rules	Stock Exchange
	後特朗普時代經濟變局	Global University
Tse Hau Yin, Aloysius	金融市場合規案例分享	OCBC Wing Hang Bank (China) Limited
	反洗錢最新監管趨勢分享和彙報	OCBC Wing Hang Bank (China) Limited
	Anti Money Laundering and Counter Terrorist Financing	OCBC Wing Hang Bank (China) Limited
	Anti-Corruption/Anti-Bribery Compliance Training	White & Case LLP
	HKEx Review of ESG Reporting Guide and Related Listing Rules	Ernst & Young
	雲改數轉	China Telecom Corp. Ltd.

Notes:

1. Mr. Feng Mingwei was appointed as Executive Director of the Company on 25 February 2020.
2. Mr. Yang Lin resigned as Non-executive Director of the Company on 2 November 2020. On the same date, Mr. J. Erik Fyrwald was appointed as Non-executive Director and Chairman of the Board of the Company.

In addition, the Company provided regular updates to all Directors in respect of the business and operations of the Group through monthly reports; and of the changes in Listing Rules, Corporate Governance Code and related regulatory requirements, if any.

Board meetings

For the year ended 31 December 2020, the Board held four meetings to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, certain continuing connected transactions and other significant matters. The Board had also approved certain proposals in respect of connected transactions, continuing connected transactions, significant business and financing matters, by circulation of written resolutions during the year. The attendance rates of the members of the Board at the aforesaid Board meetings during the year ended 31 December 2020 are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde (<i>Chief Executive Officer</i>)	4/4
Mr. Feng Mingwei (<i>Note 1</i>)	4/4
Mr. Harry Yang	4/4
Non-executive Director	
Mr. J. Erik Fyrwald (<i>Chairman</i>) (<i>Note 2</i>)	1/1
Mr. Yang Lin (<i>Note 2</i>)	3/3
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	4/4
Mr. Lu Xin	4/4
Mr. Tse Hau Yin, Aloysius	4/4

Notes:

1. Mr. Feng Mingwei was appointed as Executive Director of the Company on 25 February 2020.
2. Mr. Yang Lin resigned as Non-executive Director of the Company on 2 November 2020. On the same date, Mr. J. Erik Fyrwald was appointed as Non-executive Director and Chairman of the Board of the Company.

COMMITTEES OF THE BOARD OF DIRECTORS

Audit Committee

The Audit Committee of the Company was established by the Board in 1999 with its written terms of reference. The Audit Committee currently comprises three Independent Non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Tse Hau Yin, Aloysius and the other members are Mr. Ko Ming Tung, Edward and Mr. Lu Xin.

The latest terms of reference of the Audit Committee, which have been revised in accordance with the Corporate Governance Code, are available on the Company's website. The current terms of reference of the Audit Committee are summarized in the following aspects, including but not limited to (1) monitoring the relationship with the external auditors including but not limited to reviewing and monitoring the independence and objectiveness of the external auditor and the effectiveness of audit procedures in accordance with the applicable standards; (2) reviewing the Group's financial information; and (3) overseeing the Group's financial reporting system, risk management and internal control procedures.

CORPORATE GOVERNANCE REPORT

The Audit Committee held four meetings during the year ended 31 December 2020. The Chief Financial Officer or the General Manager of Finance of the Company and the external auditors also attended the meetings. The attendance rates of each of the committee members at these meetings are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Tse Hau Yin, Aloysius (<i>Chairman</i>)	4/4
Mr. Ko Ming Tung, Edward	4/4
Mr. Lu Xin	4/4

The Audit Committee had completed the following work during the year:

1. reviewed and commented on the Company's annual and interim reports (including the consolidated financial statements contained therein), and result announcements, and recommended the same for the Board's approval;
2. reviewed and discussed significant issues identified in the preparation of the consolidated financial statements, including those related to accounting records, financial reports and internal control systems;
3. reviewed the independence of the external auditors, considered and made recommendation to the Board on the re-appointment of external auditors and the corresponding audit fee for the year ended 31 December 2020;
4. discussed the audit plan, scope and responsibility before the commencement of work with the external auditors;
5. reviewed and evaluated annually the effectiveness of the Company's corporate governance practices and the Group's financial controls (including the adequacy of resources, staff's qualifications and experience in the Group's accounting and financial reporting functions), internal controls and risk management systems, procedures and arrangements to enable employees to raise concerns about possible improprieties in financial reporting, internal controls or other matters, and made sufficient communication with the management on related matters. The results of such review were satisfactory;
6. discussed the Group's internal audit plan and the related work with the Internal Audit Department (which is responsible for the internal audit functions of the Company) and was satisfied with their report and findings;
7. discussed the Group's risk management plan and the related work with the Risk Management personnel;
8. met with the external auditors without the management's participation;
9. reviewed the continuing connected transactions conducted by the Group; and
10. reviewed the existing terms of reference of the Audit Committee.

Remuneration Committee

The Remuneration Committee of the Company was established by the Board in August 2005 with its written terms of reference. The Remuneration Committee currently comprises three Independent Non-executive Directors. The Chairman of the Remuneration Committee is Mr. Lu Xin, and the other members are Mr. Ko Ming Tung, Edward and Mr. Tse Hau Yin, Aloysius. Mr. Yang Lin, a then Non-executive Director of the Company, was a member of the Remuneration Committee until 2 November 2020.

The latest terms of reference of the Remuneration Committee, which have been revised in accordance with the Corporate Governance Code, are available on the Company's website. The current terms of reference of the Remuneration Committee are summarized in the following aspects, including but not limited to (1) making recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (2) reviewing and approving the Executive Directors' and senior management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board; and (3) determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and making recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee met twice during the year ended 31 December 2020. The Remuneration Committee had also approved or passed a few proposals by circulation of written resolutions during the year, and had reported the relevant proposals to the Board for review or approval, where applicable, in subsequent communications to the Board. The attendance rates of each of the committee members at the aforesaid meetings during the year ended 31 December 2020 are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Lu Xin (<i>Chairman</i>)	2/2
Mr. Ko Ming Tung, Edward	2/2
Mr. Tse Hau Yin, Aloysius	2/2
Non-executive Director	
Mr. Yang Lin ^(Note)	2/2

Note: Mr. Yang Lin resigned as Non-executive Director and member of the Remuneration Committee of the Company on 2 November 2020.

The Remuneration Committee had completed the following work during the year:

1. evaluated the performance of Executive Directors and senior management and approved the proposals on performance bonus, board reward bonus and strategic synergy special incentive bonus for Executive Directors and senior management for the year 2019, based on their achievements in various performance and/or strategic targets established in the year before;
2. approved the remuneration package (including cash compensation and bonus scheme) and other major benefits of Executive Directors and senior management, and the subsequent revisions, for the year 2020. The above key terms were included in the service contract of each Executive Director and senior management;
3. made recommendation to the Board in respect of the compensation proposals for Non-executive Directors and Independent Non-executive Directors for the year 2020;
4. approved the remuneration package of three newly appointed senior management of the Company with reference to the remuneration standards of senior management for 2020 established by the Remuneration Committee;
5. reviewed and approved the amendments to the policy and structure on the remuneration for the Executive Directors and senior management of the Company;
6. approved the appointment of remuneration consultant; and
7. reviewed the existing terms of reference of the Remuneration Committee.

Remuneration policy of the Group

The key components of the Group's remuneration package include basic salary, and where applicable, other allowances, annual performance bonus and other rewards, mandatory provident funds and state-managed retirement benefits scheme. The objective of the Group is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as to achieve a balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation to employees offered by the Group varies with the importance of duties. The higher the importance of duties, the higher the ratio of incentive bonus to total remuneration. This can help the Group to recruit, retain and motivate high-calibre employees required for the development of the Group and to avoid offering excess reward.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience and performance of the Directors. They include performance bonus primarily determined based on the results of the Group and other rewards granted based on specific circumstances. The Remuneration Committee performs regular review on the emoluments of the Directors. No Director, or any of his/her associates and executives, is involved in deciding his/her own emoluments.

The Group reviews its remuneration policy annually and engages professional consultant, if necessary, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 31 December 2020, the Group had about 5,113 full-time employees (including those employed by the Group's subsidiaries), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also values the importance of training and career development of employees. In 2020, the Group provided 19,258 person-times or 123,687 hours of training (any training organized by the subsidiaries has not been included in these numbers) to employees. The training courses covered areas such as industrial development, strategy implementation, organizational skills, corporate culture, leadership enhancement, marketing management, innovative methods and tools, policy interpretation, new media operations, product knowledge, technical exchanges, compliance risks, epidemic control and prevention, finance, human resource management, safe production and general working skills. These training will further improve the management skills and professional standards of the management of the Group and enhance the overall quality of the employees to cater to the Group's rapid developments, and improve the competitiveness of the Group.

Other than those mentioned above, the Company had also arranged directors & officers' liability insurance which provides comprehensive protection for the Group's business by covering losses in relation to investigations or claims against the Company's Directors and the Group's officers.

Nomination Committee

The Nomination Committee of the Company was established by the Board in August 2005 with its written terms of reference. The Nomination Committee currently comprises four members. The Chairman of the Nomination Committee is Mr. Ko Ming Tung, Edward and the other members are Mr. Lu Xin, Mr. Tse Hau Yin, Aloysius and Mr. Harry Yang. Except for Mr. Harry Yang who is an Executive Director, the remaining three members are all Independent Non- executive Directors.

The latest terms of reference of the Nomination Committee, which have been revised in accordance with the Corporate Governance Code, are available on the Company's website. The current terms of reference of the Nomination Committee are summarized in the following aspects, including but not limited to (1) formulating nomination policy for the Board's consideration and implementing the Board's approved nomination policy; (2) determining the criteria to select and recommend candidates for directorship; (3) reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (4) identifying individuals suitably qualified to become Board members for Board's consideration on the selection of individuals nominated for directorships; and (5) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

The Nomination Committee met twice during the year ended 31 December 2020. The Nomination Committee had also approved or passed certain proposals by circulation of written resolutions during the year, and had reported the relevant proposals to the Board for review or approval, where applicable, in subsequent communications to the Board. The attendance rates of each of the committee members at the aforesaid meetings during the year ended 31 December 2020 are as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward (<i>Chairman</i>)	2/2
Mr. Lu Xin	2/2
Mr. Tse Hau Yin, Aloysius	2/2
Executive Director	
Mr. Harry Yang	2/2

The Nomination Committee had completed the following work during the year:

1. reviewed the structure, size and composition of the Board, discussed the succession planning for the Chairman of the Board, and made suggestions to the Board;
2. reviewed the terms of appointment of Directors and made recommendations to the Board;
3. nominated the Directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting;
4. reviewed the independence of Independent Non-executive Directors and made suggestions to the Board;
5. reviewed the nomination proposals in respect of the appointments of Mr. J. Erik Fyrwald as a Non-executive Director and the Chairman of the Board of the Company, and Mr. Feng Mingwei as a Executive Director of the Company, and recommended the same for approval by the Board, which were later submitted to the shareholders for consideration. In the selection process, the Nomination Committee made reference to the criteria including reputation for integrity, accomplishment and experience in the relevant business sector; professional and educational background; and potential time commitment for the Board; and
6. reviewed the existing terms of reference of the Nomination Committee.

Policy in respect of nomination of directors of the Company

The Board adopted a nomination policy on 27 March 2013 for the purpose of setting out the procedures for shareholders or Directors to propose a person for election as a Director of the Company, and to set out the general guidelines and procedures for the members of the Nomination Committee in the nominee identification, evaluation and recommendation processes.

Bye-law 88 of the Company provides that no person, other than a Director retiring at the meeting, shall be eligible for election as a Director at any general meeting unless:

1. he/she is recommended by the Directors; or
2. a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Head Office ^(Note 1) or at the Registration Office ^(Note 2), provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

Note 1: "Head Office" means the principal place of business of the Company in Hong Kong.

Note 2: "Registration Office" means the Company's branch share registrar and transfer office in Hong Kong.

Upon receipt of the notices as mentioned above, the Company shall inform the Nomination Committee as soon as practicable. The Nomination Committee shall review the profile of the candidate(s) and assess the suitability of the candidate(s) for the Board's consideration and recommendation to the shareholders for consideration. In the selection process, the Nomination Committee makes reference to the criteria including, inter alia:

1. reputation for integrity, accomplishment and experience in the relevant business sector;
2. professional and educational background;
3. potential time commitment for the Board and/or committee responsibilities; and
4. objective criteria with due regard for the benefits of diversity on the Board.

As a good corporate governance practice, every Director or Nomination Committee member shall abstain from voting on the proposition of himself/herself for election by shareholders.

To enable shareholders to make an informed decision on their election at a general meeting, the names of all candidates recommended by the Nomination Committee and the Board to be elected or re-elected as a Director in general meeting, together with his/her biographical details as set out in Rule 13.51(2) of the Listing Rules, are set out in a circular to be sent to shareholders prior to the meeting.

Board diversity policy of the Company

The Board adopted a board diversity policy on 27 March 2013 for the purpose of setting out the approach to achieve diversity on the Board. The policy states that, in designing the Board's composition, board diversity has been considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on the candidates' talents. Candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives mentioned above. The final decision will be based on merit and contribution that the selected candidates will bring to the Board.

During the year, the Nomination Committee had reviewed the Board composition of the Company and considered that the then existing Board's composition is diversified in terms of age, years of service, position, skills and knowledge. In order to promote gender diversity in accordance with recommended best practices, the Company promoted two female executives during the year so that the Company will have a pipeline of female senior management and potential successors to the Board. The Group offered all rounded trainings to both male and female employees who are considered as having suitable experience, skills and knowledge of the Group's operation and business, including but not limited to, business operation, management, accounting and finance, legal and compliance and research and development. The Board considered that such strategy will offer chances for the Board to identify capable female employees to be nominated as a member of the Board in future with an aim to providing the Board with pipeline of female candidates to achieve gender diversity in the Board in the long run.

The table below shows the headcount analysis on the diversity of the current Board members as at 31 December 2020:

Age	Years of Service			Total
	Less than 5 years	6 to 10 years	Over 10 years	
Age 45-54	1	–	–	1
Age 55-64	3	–	2	5
Age 65-74	–	–	1	1
Total	4	–	3	7

Position	Skills and Knowledge		
	Business & Corporate Management	Finance and Accounting Management	Legal Expertise
Executive Director	3	1	–
Non-executive Director	1	–	–
Independent Non-executive Director	3	2	1

Corporate Governance Committee

The Corporate Governance Committee of the Company was established by the Board in March 2012 with its written terms of reference. The Corporate Governance Committee currently comprises four members. The Chairman of the Corporate Governance Committee is Mr. Qin Hengde (Executive Director and Chief Executive Officer), and the other members of the Corporate Governance Committee are Mr. Feng Mingwei (Executive Director), Mr. Harry Yang (Executive Director) and Ms. Cheung Kar Mun, Cindy (Company Secretary). Mr. Feng Mingwei was newly appointed as the member of the Corporate Governance Committee on 2 November 2020.

The terms of reference of the Corporate Governance Committee are available on the Company's website. The current terms of reference of the Corporate Governance Committee are summarized in the following aspects, including but not limited to (1) developing and reviewing the corporate governance principles and policies of the Company and making recommendations to the Board, and implementing the corporate governance policies laid down by the Board; (2) reviewing and monitoring the corporate governance policies and practices to ensure compliance with legal and regulatory requirements; (3) developing, reviewing and monitoring the code of conduct and guidelines in relation to corporate governance matters applicable to the Company's Directors and employees; (4) reviewing the Company's compliance with the Corporate Governance Code and related rules; (5) preparing the annual Corporate Governance Report; and (6) reviewing regularly the contribution required from Directors to perform their responsibilities to the Company, and the time commitments.

CORPORATE GOVERNANCE REPORT

The Corporate Governance Committee met once during the year ended 31 December 2020. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde (<i>Chairman</i>)	1/1
Mr. Feng Mingwei (<i>Note</i>)	0/0
Mr. Harry Yang	1/1
Management	
Ms. Cheung Kar Mun, Cindy	1/1
Ms. Cao Jing (<i>Note</i>)	1/1

Note: Ms. Cao Jing was resigned as a member and Mr. Feng Mingwei was newly appointed as the member of the Corporate Governance Committee on 2 November 2020.

The Corporate Governance Committee had completed the following work during the year:

1. reviewed the Company's policies and practices on corporate governance and made recommendations to the Board;
2. reviewed and monitored the training and continuous professional development of Directors and senior management;
3. monitored the Company's corporate governance practices and ensured compliance with the Corporate Governance Code and the Listing Rules;
4. reviewed and monitored the code of conduct applicable to employees and Directors;
5. reviewed the Company's compliance with the Corporate Governance Code and the disclosures in the Corporate Governance Report;
6. monitored the Company's process in the preparation of Environmental, Social and Governance Report and reviewed the related disclosures in the report; and
7. reviewed the existing terms of reference of Corporate Governance Committee.

COMMUNICATION WITH SHAREHOLDERS

Shareholders communication policy

The Company has adopted the shareholders communication policy (the “Shareholders Communication Policy”) to ensure the shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with the Company. The Shareholders Communication Policy is available on the Company’s website.

Dividend policy

The Company’s dividend policy is to make dividend payout to shareholders when the Group record net profit during a financial year. The dividend payout ratio was determined to be at the range from 15% to 30% on the profit attributable to owners of the Company of the relevant year. In determining the specific dividend payout ratio, the Board will consider the financial performance, financial position, cash flows and capital commitment situation of the Group for the relevant year, and also the plans and requirements on future financing of the Group.

Enquiries of shareholders

Designated contacts and enquiry lines of the Company have been provided in the “Corporate Information” section of this annual report to inform the shareholders and the investment community the channels to make enquiries in respect of the Company. To the extent that the requisite information of the Company is publicly available, shareholders and the investment community may at any time make a request for such information. Shareholders can also make enquiries with the Board directly at the general meetings.

CORPORATE GOVERNANCE REPORT

General meetings

Annual general meeting is one of the principal channels for the Company to communicate with the shareholders.

2020 AGM of the Company was held on 14 May 2020, in which Mr. Harry Yang, Executive Director of the Company, chaired the meeting on behalf of the Board. In addition, the external auditors of the Company and respective chairmen or representatives of the audit, remuneration, nomination and corporate governance committees of the Company attended the 2020 AGM and were available to answer relevant questions. The attendance rates of each of the Directors at the 2020 AGM are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde (<i>Chief Executive Officer</i>)	0/1
Mr. Feng Mingwei (<i>Note 1</i>)	0/1
Mr. Harry Yang	1/1
Non-executive Directors	
Mr. J. Erik Fyrwald (<i>Chairman</i>) (<i>Note 2</i>)	0/0
Mr. Yang Lin (<i>Note 2</i>)	0/1
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	1/1

Notes:

1. Mr. Feng Mingwei was appointed as Executive Director of the Company on 25 February 2020.
2. Mr. Yang Lin resigned as Non-executive Director of the Company on 2 November 2020. On the same date, Mr. J. Erik Fyrwald was appointed as Non-executive Director and Chairman of the Board of the Company.

During the year, two special general meetings of the Company were held for approving a disclosable and connected transaction, a continuing connected transaction, and election of a Director of the Company. The attendance rates of each of the Directors at these special general meetings of the Company are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde (<i>Chief Executive Officer</i>)	0/2
Mr. Feng Mingwei (<i>Note 1</i>)	0/2
Mr. Harry Yang	2/2
Non-executive Directors	
Mr. J. Erik Fyrwald (<i>Chairman</i>) (<i>Note 2</i>)	0/1
Mr. Yang Lin (<i>Note 2</i>)	0/1
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	2/2
Mr. Lu Xin	2/2
Mr. Tse Hau Yin, Aloysius	2/2

Notes:

1. Mr. Feng Mingwei was appointed as Executive Director of the Company on 25 February 2020.
2. Mr. Yang Lin resigned as Non-executive Director of the Company on 2 November 2020. On the same date, Mr. J. Erik Fyrwald was appointed as Non-executive Director and Chairman of the Board of the Company.

Shareholders' rights

Shareholders, at the date of deposit of the requisition, holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to submit a signed written requisition, specifying the purpose (including any proposals), to the Board or the Company Secretary to require a special general meeting, and deposit the requisition at the Company's principal place of business at Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene the special general meeting, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, themselves may convene a special general meeting, but any special general meeting so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

In addition, shareholders may propose a person for election as a Director of the Company. Details of the procedures for shareholders to propose a person for election as a Director of the Company are available on the Company's website, and is disclosed in the section on "Policy in respect of nomination of directors of the Company" in this report.

CORPORATE GOVERNANCE REPORT

Constitutional documents

The constitutional documents of the Company, including the memorandum of association and Bye-laws of the Company, are available for review by shareholders from the Company's website. During the year, there is no change in these constitutional documents.

EXTERNAL AUDITOR

The Group's external auditor is KPMG. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. During the year, the Audit Committee has considered and approved the re-appointment of KPMG as auditor of the Group for the year ended 31 December 2020, and the corresponding audit fees estimation.

The audit fees paid or payable by the Group to the external auditors in respect of audit and other non-audit services for the year ended 31 December 2020 were as follows:

Nature of services	For the year ended 31 December	
	2020 RMB'000	2019 RMB'000
Audit service (including audit of financial statements and other audit related projects)	3,850	3,850
Tax related service	176	153
Total	4,026	4,003

FINANCIAL MANAGEMENT

The Group consistently strengthened management on the fundamental financial work, normalized rules and regulations, improved the quality of accounting, optimized the internal control system on risks, enhanced management of medium and long-term funds, capital and assets, explored the rational allocation of resources, improved working assets turnover efficiency, strived for precision, efficiency and professionalism, and devoted itself to discovering, protecting and creating corporate value.

In terms of team building, the Group significantly improved professional and management level of the financial personnel through monthly training, internal communication, job rotation, and performance appraisal. The Group continuously improved professional capabilities and competence of the financial personnel and developed a team of talents by internal optimization and adjustment as well as external talents introduction.

In terms of accounting, the Group strengthened the timeliness and accuracy of basic financial information, completed the accounting records and prepared the consolidated financial statements with high quality. The application of financial robots were promoted in accordance with the financial and tax business scenarios, and it combined with supply chain transformation to carry out the upgrade of information system, continuously improving work efficiency. At the same time, in accordance with the requirements of the capital market, the Group provided relevant information to the designated information disclosure platform and welcomed the supervision and inspection from regulators.

In terms of budget and analysis, the Group constantly improved the total budget management system and paid attention to the breakdown of the budget and the responsibility implementation. The Group utilized management tool including 369 rolling forecast and the risk and opportunity (R&O) analysis to strengthen process monitoring, and guaranteed the achievement of annual targets through deviation rectification in the process of development. The Group promoted the implementation of comprehensive benchmarking, and constantly improved and created best practices through benchmark management. It carried on with the high-performance orientation, focused on investment returns, optimized resource allocation and brought into full play the strategic orientation and monitoring role of budget and analysis.

In terms of fund management, in 2020, the impact of the COVID-19 pandemic lasted for the whole year. The macro environment in domestic and abroad became more complicated, and the downward pressure on the economy continued to increase. China strengthened counter-cyclical adjustments, and reduced the financing cost of the entity enterprises through targeted cuts made to required reserve ratios, targeted support, as well as LPR reform which smoothened transmission channels of market-based interest rate. The Group further strengthened cooperation with Sinochem Finance and external banks of strategic alliance, maintained sufficient banking facilities, brought into full play the advantage of integrated operation of both domestic and overseas resources, strengthened the allocation and utilization of internal capital of the Group and increased the capital turnover rate. The Group actively developed forward settlement methods including bank acceptance bill and domestic letter of credit in order to reduce the cost of capital.

In 2020, the COVID-19 pandemic spread around the world with the global financial market experiencing great shocks. A new round of quantitative easing policy has been restarted worldwide and the foreign exchange market was volatile. US dollar climbed and then retreated in response to changes in risk sentiment. The exchange rate of RMB showed further flexibility. The movement of the exchange rate of RMB against the US dollar followed an “N” trend, i.e. rising first, then declining and then rising again, which brought considerable challenge to the foreign exchange management of the import and export business of the Group. In consideration of the operation mode of fertilizer import business, the Group still took prudent measures and made gradual adjustment in exposure requirements of business units according to the actual situation. In the first half of the year, a high percentage of lock-in exchange rates was required during the panic period while the pandemic spread worldwide. In the second half of the year, as risk appetite rebounded and the US dollar weakened continuously, export business collected foreign currency settlement timely and maintained a high percentage of lock-in exchange rates while import business appropriately lowered the percentage of lock-in and increased the proportion of spot foreign currency purchased.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board understands that, in accordance with the code provision C.2 of the Corporate Governance Code contained in the Listing Rules, the Board should ensure the Group’s internal control and risk management system to be robust and appropriate, and continuously monitor and review its operation effectiveness in order to safeguard shareholders’ interests and the Group’s assets. During the reporting period, while taking into account the prevention and control of the epidemic, the Group conducted an annual review and appraisal of the whole internal control and risk management system by applying as standards the Basic Code of Corporate Internal Control and its accompanying guidelines jointly issued by the People’s Republic of China, while complying with the Listing Rules and the Internal Control Framework of US Committee of Sponsoring Organizations (COSO) as well as the Implementation Opinions on Strengthening the Construction and Supervision of the Internal Control System of Central State-owned Enterprises. The review assessed and provided feedback on all significant aspects of control such as financial monitoring, operation monitoring, compliance monitoring and risk management functions so as to ensure the effective operation of the internal control system by taking into consideration the respective characteristics of the headquarters, subsidiaries and branches of the Company.

Internal Control

For years, the Group has been committed to perfect the internal control and risk management system and constantly improved the system construction and its practical effects. In accordance with the requirements of Listing Rules of the Stock Exchange in Hong Kong, the Internal Audit Department, as the key responsible party in internal control of the Group, formulated the internal audit projects and annual internal audit plan based on the results of annual risk assessment so as to assess the efforts made by the Group in internal control and risk management. It also reviewed and discussed with the Audit Committee the implementation of annual audit and the allocation of resources in order to ensure the effectiveness of internal control.

During the reporting period, the Internal Audit Department of the Group strengthened the supervision of epidemic prevention and control, promoted the subsidiaries to actively resume work and production, and organized and implemented internal audits through a combination of remote audits and on-site audits. The audit projects covered areas such as financial audit and internal control audit. Key branches, subsidiaries, associates and joint ventures of the Group were in the scope of audit. Combined with the internal control system of the Group, the results of previous internal control assessments, the findings of annual audit investigations, the inspections of the board of supervisors, the strategic requirements of the companies as well as the concern areas of the Audit Committee, through carrying out self-assessments by departments of the headquarter, branches, controlling production subsidiaries and overseas subsidiaries, the Internal Audit Department thoroughly reviewed the effectiveness of the design and implementation of the key elements in respect of environment control, risk assessment, controlled activities, information and communication, internal control, etc.. Furthermore, the Internal Audit Department analyzed and summarized the related contents including the assessment process of internal control, identification of defects and improvement measures of internal control as well as the conclusion on the effectiveness of internal control. The Group further guaranteed the quality of internal control assessment through adopting the approach that combined training, self-assessment and tutoring examination, and perfected the internal control system of the Company by fostering sound internal control assessment and improving the circulation mechanism.

1. Internal environment: After years of development and improvement, the Group has established a sound governance structure, a healthy organizational atmosphere, a clear development strategy, a good corporate culture and a suitable human resources management mechanism, and continued to improve them. The Group performed social responsibilities actively in order to lay a solid foundation for the establishment of a strong and effective internal control system.
2. Risk assessment: Based on the internal and external environment, industrial development as well as management and control requirements during the reporting period, the Group comprehensively sorted out and assessed various risks the Company might face, identified major risk areas as well as risk management and control responsibilities, and constantly improved the construction of the risk management system in terms of audit issues and internal control management over the years.
3. Control activities: Based on the internal control environment and the risk assessment results, the Group set up relatively complete control measures in line with the Group's operating management characteristics. By continuously optimizing processes and systems, the Group improved the effectiveness of internal control. The Group continued to improve the execution of internal control activities by strengthening process supervision and inspection, risk warning as well as results assessment.
4. Information and communication: The Group established a complete information channel with smooth information flow in and out as well as up and down. The information transmission mechanism and the complaint investigation mechanism functioned well as expected, and a network of internal and external information transmission was formed, which provided a strong guarantee for the effective communication, reasonable disclosure and information security within and outside the company.

5. Internal control: In accordance with relevant requirements of the Listing Rules of the Stock Exchange and Internal Control Framework of COSO, the Group, guided by the concept “In Science We Trust, Combine Action with Knowledge”, developed a set of working ideas “prevention in advance, process control and application of results”, formulated a set of relatively perfect internal control system, and built a multi-level internal control system, which effectively secured the Company’s business objectives and strategic transformation.

Through inspection and assessment on internal control system, the Group believed that, for the year of 2020, it had a relatively good internal control environment, systematically identified, assessed and coped with risks the Group faced, established a sound and complete internal system and normative business processes and performed well in information transmission and communication as well as execution of internal supervision. The internal control and risk management system was adequate and effective and could reasonably secure the strategy promotion and current business development of the Group. In future, the Group will continue to comply with the Listing Rules of the Stock Exchange and refer to the Basic Norms of Internal Control and its guidelines. The Group will focus on building a strong multi-level supervision system, improve internal control as well as the early warning mechanism, rectification and follow-up mechanism and outcome application system, further enhance the effectiveness of design and execution of internal control, constantly promote the quality and efficiency of the internal control and ensure the smooth implementation of the Group’s strategic objectives.

Risk Management

The Group adopted a risk management model for which the general manager is responsible under the leadership of the Board of Directors and built a risk management organization as well as a guarantee system consisting of decision-makers, risk management department, responsibility departments (including business units) for major risk management and auditing and supervision department.

In 2020, faced with the serious and complicated external economic situation and the global impact of the COVID-19 pandemic, the operational pressure increased. The Group kept up with the advancement of company strategy and business, continued to strengthen risk management, actively used new methods such as online meetings and online supervision during the epidemic period for daily management, further strengthened the corporate culture of risk awareness among all employees in various ways, enhanced the risk awareness of business units as responsible entities, and actively created an atmosphere of “stable operation and healthy development” for risk control. In the fourth quarter of 2020, in line with the requirements of external supervision of the State-owned Assets Supervision and Administration Commission of the State Council and its own risk management, the Group continued to carry out new annual risk identification, assessment and response, strengthened the management and control of key businesses, key processes and key risk points and further reinforced the management and control measures such as adding quantitative indicators for major risks. The Basic Fertilizers Division and the Distribution Division streamlined and improved management systems, optimized business processes, and ensured that the business operations were carried out in a standard and orderly manner.

In 2020, the Group enhanced the allocation and utilization efficiency of credit and inventory resources, carried out differentiated monitoring and evaluation over companies with over-due receivables and long-aged inventories, controlled the trade receivables and inventories, and further deepened the management and control of key operational risks.

In order to ensure the implementation effectiveness of the risk management system, the Group continued to bring into full play its internal examination and evaluation function of risk management. In 2020, the Group carried out inspections in the headquarters, subordinate regions and subsidiaries of the Basic Fertilizers Division and the Distribution Division. Through headquarters inspection, cross inspection and special inspection, the Group increased the intensity of on-site inspections among its subsidiaries, understood the risk management status of the business units, and followed up the rectification of problems found, which enhanced the quality and efficiency of internal supervision to ensure the operational safety.

INVESTOR RELATIONS AND INFORMATION DISCLOSURE

The Group attaches great importance to investor relations, which is under direct responsibility of the senior management of the Group. Under the supervision and requirements of the Listing Rules and the Rules Governing the Management of Information Disclosure of the Company, the Group maintained a close communication with the capital market through multiple channels.

In 2020, the COVID-19 pandemic brought serious challenges to agriculture and fertilizer industry. During the year, Chinese agriculture continuously promoted Rural Revitalization Strategy and supply-side structural reform, and improved efficiency of fertilizer application. The Group organized and upgraded business priorities and strategic directions, took advantage of joining Syngenta Group developed modern agriculture, promoted a strategy of product differentiation, and enhanced the Fertex platform's functions of industrial chain service, exploring a transformation from a marketing model to a platform service provider model. At the same time, the Group actively carried out various works related to investor relations and information disclosure, fully communicated with the capital market on industrial market conditions, business operation and development strategy of the Group, and achieved good results.

In 2020, the work related to investor relations of the Group mainly include:

1. In March 2020, the Group announced its 2019 annual results and held press conference and analysts' meeting.
2. In August 2020, the Group announced its 2020 interim results and held press conference and analysts' meeting.

Apart from the above-mentioned results press conferences, the Group participated in several investor conferences organized by investment banks and also adopted multiple ways in daily work including on-site receptions, conference calls, and emails to keep effective communication and connection with investors and analysts. For the year ended 31 December 2020, the Group had conducted over 300 discussions or communications with the capital market in different ways.

In addition, the Group timely disclosed corporate information through Stock Exchange and the Company's websites with strict compliance with the Listing Rules and the Rules Governing the Management of Information Disclosure of the Company, delivering important announcements to all shareholders. The Company also continuously updated the Company's website to deliver useful information of the business of the Group to the public.

HEALTH, SAFETY AND ENVIRONMENT

The Group insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, continuously reduced pollutant emission through technological transformation, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. The Group actively built an enterprise featuring intrinsic safety and environmental friendliness and proactively fulfilled its social responsibility.

In 2020, the Group achieved the planned goals of "zero" fatal accident, "zero" general or above environmental incident, "zero" new case of occupational disease and "zero" major negative public opinion on health, safety and environment (HSE). The Group maintained an overall stable performance in HSE.

In 2020, the Group implemented relevant national policies and arrangements, based on the improvement of the HSE system construction, strengthened and clarified the HSE responsibilities of the enterprises and personnel at all levels, centered on "system integration" and "risk management and control", and fully promoted the HSE systematic management and risk identification activities among all the employees. All subsidiaries of the Group continued to increase investment in safety, vigorously promoted hazard rectification, constantly improved the working environment of employees, consolidated all the basic construction of occupational health management, effectively controlled occupational hazards, and ensured the health of the personnel.

The subsidiaries of the Group that were involved in resource development and fertilizer production strictly adhered to the laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China as well as the Water Pollution Prevention and Control Law of the People's Republic of China, did a good job in the investigation and management of environmental risk sources, took measures to prevent and control pollution of air, surface water, underground water and soil, and strictly implemented the "three-simultaneity" management of environmental protection for construction projects so as to ensure compliance with national laws and regulations on environmental protection. The Group set up contingency plans for environmental pollution emergencies, and provided necessary materials for emergency treatment. There was no environmental pollution incident in 2020.

In 2020, an actual investment of RMB167.81 million was made in the Group's environmental protection, including RMB97.75 million in Sinochem Chongqing Fuling Chemicals Fertilizer Co., Ltd. ("Sinochem Fuling"), RMB45.47 million in Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), RMB9.95 million in Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), RMB11.90 million in Sinochem Shandong Fertilizer Co., Ltd., RMB1.07 million in Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd., RMB1.66 million in Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. and RMB0.02 million in Sinochem Yantai Crop Nutrition Co., Ltd..

In 2020, the Group fully completed its energy-saving and emission reduction targets. In particular, the emissions of SO₂, COD, NH-N and Nox was 546.18 tons, 39.16 tons, 6.94 tons and 654.30 tons, respectively. The subsidiaries such as Sinochem Changshan, Sinochem Fuling and Sinochem Yunlong maintained sound operation in terms of environmental protection and saw no major complaint and public opinion incident while the government supervision team carried out inspections.

Environmental, Social and Governance report

The Company is going to publish its 2020 Environmental, Social and Governance Report soon in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules. The content of the report will conform to the requirements of the Stock Exchange and disclose the environmental, social and governance performance of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

The Group focused on key products. On one hand, it strengthened the development of core bases and core suppliers, stabilized the international and domestic supply system, built a diversified supply chain, guaranteed the long-term and stable supply of high-quality fertilizer resources for the Group and continued to maintain its position as a large fertilizer importer of China; on the other hand, it explored key markets and maintained close cooperation with core customers, continued to improve the integrated management of upstream and downstream operations, formed a strong linkage between the upstream and downstream operations and became an important player in the supply chain of basic fertilizers. In 2020, the Group followed the strategy of in-depth distribution, and the proportion of straight service for big growers increased.

In 2020, the aggregate revenue generated from the five major customers of the Group accounted for no more than 20% of the Group's total revenue. Over the years, the Group maintained a stable business relationship with Shanghai Haoyuan Agricultural Material Development Co., Ltd., one of the major customers of the Group.

In 2020, the aggregate purchase from the Group's five major suppliers accounted for about 24% of the Group's total purchases, including 6% from the largest supplier. As the most important domestic potash supplier for the Group, Qinghai Salt Lake Industry Co., Ltd. maintained a long-term business relationship with the Group and supplied potash products to the Group by means of payment upon delivery or payment in advance.

The Group tightened the access threshold for customers and suppliers. In particular, strict examination and approval procedures were applied to customers with sale on credit and suppliers with payment in advance. The Group closely followed up on the operation status of the major customers and suppliers and attached credit insurance to each of them. During the year of 2020, the Group maintained sound cooperation with its major customers and suppliers.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group strictly complied with the requirements of laws, regulations and policies in China as well as the Listing Rules of the Stock Exchange. In 2020, with stricter supervision of the Chinese government on environmental protection and work safety, the Group adhered to the Environmental Protection Law of the People's Republic of China, the Production Safety Law of the People's Republic of China, the Fire Prevention Law of the People's Republic of China, the Implementation Rules for Water Pollution Prevention and Control Law, the Management Regulations on Environmental Protection of Construction Project, the Occupational Disease Prevention and Control Law of the People's Republic of China in its production and operation activities. The Group abided by the laws and regulations of environmental protection, clean production and water and soil conservation, actively implemented the principle of putting people first and safe development, built an environmental protection mechanism, formulated an environmental protection plan and regulations within the Group, constantly improved the environmental protection compliance, invested a large amount of resources to improve production equipment, and reduced production emissions and pollutions. Through internal control, risk and HSE management, the Group successfully achieved the emission reduction indicators for the reporting period, largely decreased the total energy consumption and effectively safeguarded the lawful operation and sound implementation of the Group's businesses as well as the achievement of the Group's operation objectives and strategic transformation.

DIRECTORS' REPORT

The Board of Directors of the Company hereby presents the Directors' Report together with the audited consolidated financial statements of the Group for the year ended 31 December 2020.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding.

The principal activities of the Group include the production, import and export, distribution and retail of raw materials and finished products of crop nutrition products, provision of technological research and development and services relating to crop nutrition business and products, exploration and exploitation of phosphate mine, and production of monocalcium/monodicalcium phosphate. Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group, an analysis using financial key performance indicators, and an indication of likely future developments in the Group's business, can be found in the sections of "Management Review and Prospect" and "Management's Discussion and Analysis" of the annual report. In addition, a discussion on the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with its employees, customers and suppliers, can be found in the section of "Corporate Governance Report" of the annual report. These discussions form part of the Directors' Report.

An analysis of the Group's performance for the year by business segment is set out in note 4 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss and other comprehensive income on pages 110 to 111 of the annual report.

The Board recommended the payment of a final dividend of HK\$0.0327 (equivalent to RMB0.0275) per share for the year ended 31 December 2020 (2019: HK\$0.0294, equivalent to RMB0.0263) to the shareholders, estimated to be HK\$229,700,000 (equivalent to approximately RMB193,315,000) out of the contributed surplus of the Company. It is expected that the relevant dividend will be paid by 23 July 2021 to those entitled, subject to shareholders' approval at the forthcoming annual general meeting.

FINANCIAL SUMMARY

A summary of the operating results and of the assets and liabilities of the Group for the last five financial years is set out on page 208 of the annual report.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate turnover from the Group's five largest customers were less than 30% of the Group's total turnover for the year ended 31 December 2020. The aggregate purchases from the Group's five largest suppliers represented less than 30% of the Group's total purchases for the year ended 31 December 2020.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company for the year are set out in note 36 to the consolidated financial statements.

RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 115 to 116 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2020, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to approximately RMB1,585,006,000 (2019: RMB1,772,378,000). The amount represented the credit standing in the contributed surplus and retained earnings of the Company as at 31 December 2020.

DONATIONS

During the year ended 31 December 2020, the Group had made approximately RMB1,276,400 charitable donations in cash, donated fertilizer worth approximately RMB203,300 to certain poverty locations in China, and made donations of other items worth approximately RMB183,200.

DIRECTORS

The Directors of the Company for the year and up to the date of this report were:

Executive Directors

Mr. Qin Hengde (*Chief Executive Officer*)

Mr. Feng Mingwei (*appointed on 25 February 2020*)

Mr. Harry Yang

Non-Executive Directors

Mr. J. Erik Fyrwald (*Chairman, appointed on 2 November 2020*)

Mr. Yang Lin (*resigned on 2 November 2020*)

Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward

Mr. Lu Xin

Mr. Tse Hau Yin, Aloysius

In accordance with the Bye-laws of the Company, Mr. Qin Hengde, Mr. Ko Ming Tung, Edward and Mr. Tse Hau Yin, Aloysius will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management of the Company are set out on pages 45 to 51 of the annual report.

DISCLOSURE OF INFORMATION OF DIRECTORS

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules on the Stock Exchange, the changes/ update of information of Directors during the year ended 31 December 2020 and up to the date of this report are as follows:

1. The total cash compensation received by Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, Mr. Feng Mingwei and Mr. Harry Yang, Executive Directors of the Company, for the year ended 31 December 2020 are set out in note 10 to the consolidated financial statements.
2. Mr. Feng Mingwei was appointed as an Executive Director of the Company with effect from 25 February 2020, and a member of the Corporate Governance Committee of the Company with effect from 2 November 2020. Mr. Feng was appointed as vice chairman of the China Region of Syngenta Group since June 2020.
3. Mr. Yang Lin resigned as a Non-executive Director and a member of the Remuneration Committee of the Company with effect from 2 November 2020. On the same date, Mr. J. Erik Fyrwald was appointed as a Non-executive Director and Chairman of the Board of the Company.
4. Mr. Ko Ming Tung, Edward, an Independent Non-executive Director of the Company, ceased to be an independent non-executive director of Wai Chun Group Holdings Limited with effect from 3 November 2020.
5. Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, ceased to be a director and vice chairman of Qinghai Salt Lake Industry Co., Ltd. on 22 February 2021. On the same date, Mr. Feng Mingwei, an Executive Director of the Company, was elected as the vice chairman of Qinghai Salt Lake Industry Co., Ltd..

DIRECTORS' SERVICE CONTRACTS

As at 31 December 2020, the Company had entered into service contracts with Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, Mr. Feng Mingwei and Mr. Harry Yang, Executive Directors of the Company. Each service contract with Executive Directors has a term of three years and will be renewable upon mutual negotiation on expiry.

The Company had issued formal letters of appointment for all Non-executive Directors (including Independent Non-executive Directors) of the Company, setting out key terms and conditions of their appointment, in compliance with the code provision D.1.4 as set out in the Corporate Governance Code.

Save as disclosed above, as at 31 December 2020, none of the Directors has a service contract with the Company.

DIRECTORS' INTERESTS IN THE SHARES

As at 31 December 2020, the interests of the Directors and chief executives in the Shares, share options, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were disclosed below.

As at 31 December 2020, the following Directors of the Company had long position in the ordinary shares of HK\$0.1 each of the Company:

Name of Director	Capacity	Number of issued Shares held	Percentage of the issued share capital of the Company
Lu Xin	Beneficial owner	2,900,000	0.041%
Tse Hau Yin, Aloysius	Beneficial owner	3,404,000	0.048%

Save as disclosed above, as at 31 December 2020, none of the Directors or chief executives of the Company had any interests or short positions in any Shares, share options, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than disclosed above, at no time during the year and as at 31 December 2020, was the Company or any of its subsidiaries or holding companies or the subsidiaries of the holding companies a party to any arrangement the object of which is to enable the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of Shares in, or debt securities of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2020, other than the Directors or chief executives of the Company, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholder	Number of issued ordinary Shares held – Long position	Percentage of the issued share capital of the Company
China National Chemical Corporation Limited ("ChemChina") <i>(Note 2)</i>	3,698,660,874	52.65%
Syngenta Group Co., Ltd. ("Syngenta Group") <i>(Note 2)</i>	3,698,660,874	52.65%
CNAC (HK) Holdings Company Limited ("CNAC HK") <i>(Note 3)</i>	3,698,660,874	52.65%
Nutrien Ltd. <i>(Note 4)</i>	1,563,312,141	22.26%
Potash Corporation of Saskatchewan Inc. ("Potash Corporation") <i>(Note 4)</i>	1,563,312,141	22.26%
PCS (Barbados) Investment Company Limited ("PCS") <i>(Note 5)</i>	1,563,312,141	22.26%

Notes:

- On 17 June 2020, the Company was informed by Sinochem Hong Kong (Group) Company Limited that it has completed the transfer of 3,698,660,874 ordinary Shares of the Company held by it to CNAC HK. On 13 July 2020, the register of members of the Company was updated to reflect the above change in shareholder.
- CNAC HK is a wholly-owned subsidiary of Syngenta Group Co., Ltd. (先正達集團股份有限公司), which is in turn wholly owned by China National Agrochemical Co., Ltd. (中國化工農化有限公司) ("CNAC"). CNAC is a wholly-owned subsidiary of China National Chemical Corporation Limited (中國化工集團有限公司). Accordingly, ChemChina, CNAC and Syngenta Group are deemed to be interested in 3,698,660,874 ordinary Shares of the Company, being corporate interest beneficially held by CNAC HK.
- CNAC HK was beneficially interested in 3,698,660,874 ordinary Shares of the Company
- PCS is a wholly-owned subsidiary of PCS (Barbados) Enterprise SRL, which is in turn wholly owned by Potash Corporation. Potash Corporation is wholly owned by PCS AcquisitionCo ULC, which is in turn wholly owned by Nutrien Ltd. Accordingly, Nutrien Ltd., PCS AcquisitionCo ULC, Potash Corporation and PCS (Barbados) Enterprise SRL are deemed to be interested in 1,563,312,141 ordinary Shares of the Company, being corporate interest beneficially held by PCS.
- PCS was beneficially interested in 1,563,312,141 ordinary Shares of the Company.

Save as disclosed above, other than the Directors or chief executives of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2020, which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

DIRECTORS OR THEIR ASSOCIATED ENTITIES' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed herein, no other transactions, arrangements or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company or any of their associated entities had a material interest, whether directly or indirectly, were subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year ended 31 December 2020 and up to 22 February 2021, Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, was a director and the vice chairman of the board of directors of Qinghai Salt Lake Industry Co., Ltd. (青海鹽湖工業股份有限公司) ("Qinghai Salt Lake"). Mr. Feng Mingwei, an Executive Director of the Company, is also a director of Qinghai Salt Lake and was appointed as its vice chairman on 22 February 2021. Qinghai Salt Lake is a joint stock limited liability company incorporated in the PRC whose shares are traded on the Shenzhen Stock Exchange (stock code: 000792). The principal activities of Qinghai Salt Lake include the development, production and sale of potassium chloride (a form of potash), and the comprehensive development and utilization of salt lake resources.

The board of directors of Qinghai Salt Lake consists of 11 directors. Mr. Qin Hengde and Mr. Feng Mingwei are not involved in the daily production, sale, operation or management of Qinghai Salt Lake. Both Mr. Qin Hengde and Mr. Feng Mingwei have extensive experience in the fertilizer industry, are aware of their duties and responsibilities as the Directors and senior management members of the Company, and are able to devote sufficient time to the business of the Group. The Company believes that Mr. Qin Hengde and Mr. Feng Mingwei are able to exercise their independent judgment in making decisions at the Board meetings and act in the interest of the Group.

Save as disclosed above, during the year ended 31 December 2020 and up to the date of this report, none of the Directors of the Company and their respective close associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CONNECTED TRANSACTIONS

Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies and certain specific terms included in this section shall have the same meaning assigned to them in the respective announcements or circulars.

I. One-off Connected Transactions

For the year ended 31 December 2020, the Group conducted the following one-off connected transactions that are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

1. **Provision of Financial Assistance by Sinochem Fertilizer to Sinochem Agriculture**

1) *Agreement for the Use of Fund*

On 8 November 2019, Sinochem Fertilizer (as the lender) entered into an agreement for the use of fund (the "Agreement for the Use of Fund") with Sinochem Agriculture (as the borrower), with a term of one year from 8 November 2019. Pursuant to the Agreement for the Use of Fund, Sinochem Fertilizer agreed to provide the fund in a total amount of not more than RMB250 million to Sinochem Agriculture at an interest rate of 4.2% per annum. Sinochem Agriculture should use the fund for its daily working capital and acquisition of fixed assets.

Sinochem Group issued the letter of undertaking (the "Original Letter of Undertaking") to Sinochem Fertilizer on 7 November 2019, pursuant to which Sinochem Group had undertaken to provide a guarantee in favour of Sinochem Fertilizer for the joint and several liabilities in connection with all the contractual obligations of Sinochem Agriculture under the Agreement for the Use of Fund.

2) *Supplemental Agreement to the Agreement for the Use of Fund*

On 17 August 2020, Sinochem Fertilizer and Sinochem Agriculture entered into a supplemental agreement to the Agreement for the Use of Fund (the "Supplemental Agreement"), pursuant to which the parties agreed to increase the maximum amount of the fund under the Agreement for the Use of Fund from RMB250 million to RMB1,000 million, revise the interest rate of the fund from 4.2% per annum to 3.85% for the first year (which would be adjusted for the second year), and change the expiry date of the Agreement for the Use of Fund from 7 November 2020 to the date that falls on the second anniversary of the date of approval of the Supplemental Agreement by the independent shareholders.

In light of the amendments to the Agreement for the Use of Fund as stipulated in the Supplemental Agreement, Sinochem Group issued a new letter of undertaking to Sinochem Fertilizer on 13 August 2020 to expand the scope of its guarantee under the Original Letter of Undertaking to cover all the contractual obligations of Sinochem Agriculture under the Supplemental Agreement.

Prior to the Change of Controlling Shareholder, Sinochem Agriculture was a subsidiary of Sinochem Group, which was the ultimate controlling shareholder of the Company. At around the same time as the Change of Controlling Shareholder, Sinochem Group transferred some of its subsidiaries (including Sinochem Agriculture) to ChemChina. Therefore, after the Change of Controlling Shareholder, Sinochem Agriculture has become a subsidiary of ChemChina, which has then become the ultimate controlling shareholder of the Company. As a result, Sinochem Agriculture is a connected person of the Company before and after the Change of Controlling Shareholder, and the transaction contemplated under the Agreement for the Use of Fund (as revised by the Supplemental Agreement) constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that one or more of the applicable percentage ratios in respect of the transaction under the Agreement for the Use of Fund (before the revision by the Supplemental Agreement) are more than 0.1% but less than 5%, such transaction is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. Given that one or more of the applicable percentage ratios in respect of the transaction under the Agreement for the Use of Fund (as revised by the Supplemental Agreement) are more than 5%, such transaction (i) is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and (ii) also constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under such Chapter.

For detailed information on the aforesaid transaction, please refer to the announcements dated 8 November 2019 and 17 August 2020, and the circular dated 2 September 2020 published by the Company. The transaction under the Agreement for the Use of Fund (as revised by the Supplemental Agreement) has been approved by the independent shareholders of the Company at the special general meeting of the Company held on 17 September 2020.

2. Capital Injection to Sinochem Fuling

On 16 March 2020, Sinochem Fertilizer, Sinochem Fuling, Fuling SASAC, Fuling SAM and SCFP entered into an agreement, pursuant to which (i) Sinochem Fertilizer agreed to convert an amount of RMB700,000,000 in the outstanding shareholder's loans extended by it to Sinochem Fuling into an additional registered capital of Sinochem Fuling; and (ii) Fuling SAM, a wholly-owned subsidiary of Fuling SASAC, agreed to subscribe for an additional registered capital of Sinochem Fuling of RMB210,000,000 in cash. Upon completion of the transaction, the registered capital of Sinochem Fuling would increase from RMB148,000,000 to RMB1,058,000,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Fuling would increase from 60% to 74.56%.

Given that the applicable percentage ratios in respect of the Capital Injection by Sinochem Fertilizer are more than 5% but less than 25%, the Capital Injection by Sinochem Fertilizer constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Sinochem Fuling is an indirect non-wholly owned subsidiary of the Company. Fuling SASAC is a substantial shareholder of Sinochem Fuling. Fuling SAM is a connected person of the Company at the subsidiary level by virtue of it being a wholly-owned subsidiary of Fuling SASAC. As such, the Capital Injection by Fuling SAM constitutes a connected transaction between the Group and the connected person at the subsidiary level under Chapter 14A of the Listing Rules. As the applicable percentage ratios in respect of the Capital Injection by Fuling SAM are more than 1% but less than 5%, the Capital Injection by Fuling SAM is subject to the reporting and announcement requirements but is exempt from the independent shareholders' approval requirement under Chapter 14 of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement dated 16 March 2020 published by the Company.

II. Continuing Connected Transactions

For the year ended 31 December 2020, the Group's continuing connected transactions are listed below, which are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the following continuing connected transactions. During the year, the Company have followed the pricing policies and guidelines formulated at the time when such transactions were entered into.

1. ***Sulphur Import Framework Agreement among Sinochem Fertilizer, Dohigh Trading/Sinochem Singapore and Sinochem Group***

On 5 November 2019, the Company (for and on behalf of Dohigh Trading and Sinochem Singapore) and Sinochem Fertilizer entered into a sulphur, fertilizer and other fertilizer raw materials import framework agreement (the "Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would import sulphur, fertilizer and other fertilizer raw materials sourced by the overseas subsidiaries of the Company (including Dohigh Trading and Sinochem Singapore) and sell them to Sinochem Fertilizer during the period from 1 January 2020 to 31 December 2020 (both days inclusive).

Under the Sulphur Import Framework Agreement, the pricing principles for the sale and purchase of sulphur, fertilizer and other fertilizer raw materials between the parties were as follows: (i) the price paid by Sinochem Group to the overseas subsidiaries of the Company for sulphur, fertilizer and other fertilizer raw materials sold by the overseas subsidiaries of the Company to Sinochem Group should be determined in accordance with the prevailing international market price; and (ii) the price paid by Sinochem Fertilizer to Sinochem Group for sulphur, fertilizer and other fertilizer raw materials sold by Sinochem Group to Sinochem Fertilizer should be determined in accordance with the domestic wholesale price at port.

Under the Sulphur Import Framework Agreement, the annual cap for the year ended 31 December 2020 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from the overseas subsidiaries of the Company was US\$98,860,000; and the annual cap for the year ended 31 December 2020 in respect of the sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer was RMB710,000,000.

Prior to the Change of Controlling Shareholder, Sinochem Group was the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Sulphur Import Framework Agreement constituted continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Sulphur Import Framework Agreement were more than 5%, such transactions were subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. After the Change of Controlling Shareholder, Sinochem Group has ceased to be the controlling shareholder of the Company and the transactions under the Sulphur Import Framework Agreement have ceased to be continuing connected transactions of the Company.

For detailed information on the aforesaid transactions, please refer to the announcement dated 5 November 2019, and the circular dated 26 November 2019 published by the Company. The continuing connected transactions under the Sulphur Import Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 19 December 2019.

2. *Fertilizer Co-operation Framework Agreement among Sinochem Fertilizer, Sinochem Macao and Sinochem Group*

On 5 November 2019, Sinochem Macao and Sinochem Fertilizer entered into a fertilizer sale co-operation framework agreement (the "Fertilizer Co-operation Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would import fertilizer products sourced by Sinochem Macao and sell them to Sinochem Fertilizer during the period from 1 January 2020 to 31 December 2020 (both days inclusive).

Under the Fertilizer Co-operation Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties were as follows: (i) the price paid by Sinochem Group to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Group should be determined in accordance with the prevailing international market price; (ii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced from overseas by Sinochem Macao should be determined in accordance with the purchase price paid by Sinochem Group plus reasonable costs incurred by Sinochem Group in relation to the import of fertilizer products; and (iii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced by Sinochem Group directly from overseas suppliers should be determined in accordance with the domestic wholesale price at port.

Under the Fertilizer Co-operation Framework Agreement, the annual cap for the year ended 31 December 2020 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group was US\$1,126,000,000; and the annual cap for the year ended 31 December 2020 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group was RMB8,346,000,000.

Prior to the Change of Controlling Shareholder, Sinochem Group was the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Fertilizer Co-operation Framework Agreement constituted continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Fertilizer Co-operation Framework Agreement were more than 5%, such transactions were subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. After the Change of Controlling Shareholder, Sinochem Group has ceased to be the controlling shareholder of the Company and the transactions contemplated under the Fertilizer Co-operation Framework Agreement have ceased to be continuing connected transactions of the Company.

For detailed information on the aforesaid transactions, please refer to the announcement dated 5 November 2019, and the circular dated 26 November 2019 published by the Company. The continuing connected transactions under the Fertilizer Co-operation Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 19 December 2019.

3. *Fertilizer Sale Framework Agreement between Sinochem Fertilizer and Sinochem Agriculture*

On 12 November 2019, Sinochem Fertilizer and Sinochem Agriculture entered into a fertilizer sale framework agreement (the "Fertilizer Sale Framework Agreement"), pursuant to which Sinochem Fertilizer would, during the period from 1 January 2020 to 31 December 2020 (both days inclusive), sell its fertilizer products to Sinochem Agriculture who would then sell such products to its customers. Pursuant to the Fertilizer Sale Framework Agreement, Sinochem Fertilizer would sell fertilizer products to Sinochem Agriculture at the fair market price of such fertilizer products at the time of the transaction.

Under the Fertilizer Sale Framework Agreement, the annual cap for the year ended 31 December 2020 in respect of the sale of fertilizer products by Sinochem Fertilizer to Sinochem Agriculture was RMB712,000,000.

As mentioned above, prior to the Change of Controlling Shareholder, Sinochem Agriculture was a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Fertilizer Sale Framework Agreement constituted continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Fertilizer Sale Framework Agreement were more than 5%, such transactions were subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 12 November 2019, and the circular dated 3 December 2019 published by the Company. The continuing connected transactions under the Fertilizer Sale Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 19 December 2019.

4. Financial Services Framework Agreement between the Company and Sinochem Finance

On 18 November 2019, the Company and Sinochem Finance entered into a financial services framework agreement (the "Financial Services Framework Agreement"), pursuant to which the Group would, from time to time, utilize the financial services available from Sinochem Finance as it deemed necessary during the period from 1 January 2020 to 31 December 2020 (both days inclusive), which included the deposit services, provision of loan services, arrangement of entrustment loans, commercial bills of exchange services, buyer financing services, settlement services, provision of guarantees, internet banking services and any other financial services as approved by the CBIRC, and pay the relevant interests and service fees to or receive deposit interests from Sinochem Finance in accordance with the Financial Services Framework Agreement.

No service fee was payable for buyer financing services and settlement services, and the interests and fees charged for other services were determined based on the standard rates promulgated by the PBOC from time to time or with reference to the prices quoted by independent commercial banks.

Under the Financial Services Framework Agreement, the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for the year ended 31 December 2020 was RMB1,000,000,000. In respect of the other financial services, the annual cap for the year ended 31 December 2020 was RMB10,000,000.

Sinochem Finance is a subsidiary of Sinochem Group. Prior to the Change of Controlling Shareholder, Sinochem Finance was a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the financial services provided by Sinochem Finance to the Group under the Financial Services Framework Agreement constituted continuing connected transactions of the Company. Given the applicable percentage ratios in respect of the maximum daily outstanding balance of the deposit services under the Financial Services Framework Agreement were more than 5% but less than 25%, the deposit services (i) were subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules, and (ii) also constituted a discloseable transaction under Chapter 14 of the Listing Rules and were subject to the reporting and announcement requirements under such Chapter. Given that the applicable percentage ratios in respect of the annual cap for the other financial services under the Financial Services Framework Agreement were more than 0.1% but less than 5%, the other financial services were subject to the reporting, announcement and annual review requirements but were exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. After the Change of Controlling Shareholder, Sinochem Group has ceased to be the controlling shareholder of the Company and the transactions under the Financial Services Framework Agreement have ceased to be continuing connected transactions of the Company.

For detailed information on the aforesaid transactions, please refer to the announcement dated 18 November 2019, and the circular dated 4 December 2019 published by the Company. The deposit services under the Financial Services Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting held on 19 December 2019.

5. **Agrichemical Framework Agreements**

1) *Agrichemical Framework Agreement*

On 9 December 2019, Sinochem Fertilizer and Sinochem Group (for and on behalf of its subsidiaries) entered into a framework agreement in relation to agrichemical, seed and other related products (the “Agrichemical Framework Agreement”), pursuant to which Sinochem Fertilizer would purchase from and/or sell to subsidiaries of Sinochem Group certain agrichemical, seed and other related products during the period from 1 January 2020 to 31 December 2020 (both days inclusive). Pursuant to the Agrichemical Framework Agreement, prices of agrichemical, seed and other related products should be determined with reference to fair market prices of the products within the PRC at the time when Sinochem Fertilizer or the relevant subsidiary of Sinochem Group submitted its purchase plan for the relevant products.

The annual purchase cap for the year ended 31 December 2020 in respect of the continuing connected transactions under the Agrichemical Framework Agreement was RMB100,000,000, and the annual sale cap for the year ended 31 December 2020 in respect of the continuing connected transactions under the Agrichemical Framework Agreement was RMB100,000,000.

2) *New Agrichemical Framework Agreement*

To streamline the continuing connected transactions between Sinochem Fertilizer and Syngenta Group (a subsidiary of ChemChina) and its subsidiaries after the Change of Controlling Shareholder, Sinochem Fertilizer and Syngenta Group entered into a framework agreement in relation to agrichemical, seed and other related products (the “New Agrichemical Framework Agreement”), pursuant to which Sinochem Fertilizer would purchase from and/or sell to subsidiaries of Syngenta Group certain agrichemical, seed and other related products for a period up to 31 December 2020. Pursuant to the New Agricultural Framework Agreement, prices of agrichemical, seed and other related products should be determined with reference to the fair market prices of the products within the PRC at the time when Sinochem Fertilizer or the relevant subsidiary of Syngenta Group submitted its purchase plan for the relevant products.

The annual purchase cap for the year ended 31 December 2020 in respect of the continuing connected transactions under the New Agrichemical Framework Agreement was RMB170,000,000, and the annual sale cap for the year ended 31 December 2020 in respect of the continuing connected transactions under the New Agrichemical Framework Agreement was RMB100,000,000.

Prior to the Change of Controlling Shareholder, Sinochem Group was the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Agrichemical Framework Agreement constituted continuing connected transactions of the Company. After the Change of Controlling Shareholder, Syngenta Group became an indirect controlling shareholder of the Company, and the transactions contemplated under the New Agrichemical Framework Agreement also constituted continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Agrichemical Framework Agreement and the New Agrichemical Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2019 and 8 July 2020 published by the Company.

6. *Fertilizer Framework Agreement between Sinochem Fertilizer and ChemChina*

On 22 June 2020, Sinochem Fertilizer and Bluestar Adisseo (a subsidiary of ChemChina) entered into a sales contract, pursuant to which Sinochem Fertilizer agreed to purchase 4,000 tonnes of ammonium sulphate crystal (a type of fertilizer) from Bluestar Adisseo at a unit price of RMB480 per tonne, and the total consideration for the purchase would be RMB1,920,000. On 8 July 2020, Sinochem Fertilizer and Bluestar Adisseo entered into the second sales contract, pursuant to which Sinochem Fertilizer agreed to purchase 8,000 tonnes of ammonium sulphate crystal from Bluestar Adisseo at a unit price of RMB483 per tonne, and the total consideration for the purchase would be RMB3,864,000.

In order to streamline the continuing connected transactions between Sinochem Fertilizer and subsidiaries of ChemChina in relation to the purchase and sale of fertilizer products, Sinochem Fertilizer and ChemChina entered into a fertilizer framework agreement (the "Fertilizer Framework Agreement") on 22 July 2020, pursuant to which Sinochem Fertilizer would purchase from and/sell to subsidiaries of ChemChina certain fertilizers and related products for a period up to 31 December 2020. Pursuant to the Fertilizer Framework Agreement, prices of fertilizers and related products should be determined with reference to the fair market prices of the products within the PRC at the time when Sinochem Fertilizer or the relevant subsidiary of ChemChina submitted its purchase plan for the relevant products. The annual purchase cap for the year ended 31 December 2020 in respect of the continuing connected transactions under the Fertilizer Framework Agreement was RMB58,000,000, and the annual sale cap for the year ended 31 December 2020 in respect of the continuing connected transactions under the Fertilizer Framework Agreement was RMB30,000,000.

After entering into the Fertilizer Framework Agreement, the above sales contracts have been included in and regulated by the Fertilizer Framework Agreement, and the transaction amounts under the sales contracts have been included in the annual caps set by the Company in respect of the Fertilizer Framework Agreement.

After the Change of Controlling Shareholder, ChemChina has become the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. The transactions contemplated under the Fertilizer Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Fertilizer Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 8 July 2020, 22 July 2020 and 20 November 2020 published by the Company.

7. Framework Agreement in relation to Agricultural Products between Sinochem Fertilizer and ChemChina

In order to streamline the continuing connected transactions between Sinochem Fertilizer and subsidiaries of ChemChina in relation to the purchase and sale of agricultural products, Sinochem Fertilizer and ChemChina entered into a framework agreement (the "Framework Agreement") on 29 October 2020, pursuant to which Sinochem Fertilizer will purchase from and/or sell to subsidiaries of ChemChina certain agricultural products, including fertilizers (such as nitrogen fertilizer, phosphate fertilizer, potash fertilizer and compound fertilizer), agrichemicals (such as pesticide, fungicide and herbicide) and seeds, during the period from 1 January 2021 to 31 December 2021 (both days inclusive). Pursuant to the Framework Agreement, prices of agricultural products shall be determined with reference to the fair market prices of the products within the PRC at the time when Sinochem Fertilizer or the relevant subsidiary of ChemChina submits its purchase plan for the relevant products.

The annual purchase cap for the year ending 31 December 2021 in respect of the continuing connected transactions under the Framework Agreement is RMB494,800,000, and the annual sale cap for the year ending 31 December 2021 in respect of the continuing connected transactions under the Framework Agreement is RMB700,600,000.

After the Change of Controlling Shareholder, ChemChina has become the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. The transactions contemplated under the Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 29 October 2020, and the circular dated 3 December 2020 published by the Company. The continuing connected transactions under the Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting held on 18 December 2020.

8. *Service Agreement between Sinochem Macao and Sinochem UK*

On 9 December 2019, Sinochem Macao and Sinochem UK entered into a service agreement (the "UK Service Agreement"), pursuant to which Sinochem UK would provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (which mainly included salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs) during the period from 1 January 2020 to 31 December 2022 (both days inclusive). Pursuant to the UK Service Agreement, the fee payable by Sinochem Macao shall range from US\$4 to US\$10 per tonne of products.

Under the UK Service Agreement, the annual cap for each of the three years ending 31 December 2022 in respect of the continuing connected transactions between Sinochem Macao and Sinochem UK is US\$2,300,000.

Sinochem UK is a connected person of the Company before and after the Change of Controlling Shareholder (Sinochem UK is a subsidiary of Sinochem Group before the Change of Controlling Shareholder, and a subsidiary of ChemChina after the Change of Controlling Shareholder). Therefore, the transactions contemplated under the UK Service Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the UK Service Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 9 December 2019 published by the Company.

9. *The MOU between Sinochem Macao and Canpotex*

On 28 December 2017, Sinochem Macao and Canpotex entered into the MOU, pursuant to which Sinochem Macao agreed to purchase an annual volume of 500,000 tonnes of red standard grade potash from Canpotex for each of the three years ended 31 December 2020. In addition, if mutually agreed upon by the parties, Sinochem Macao would have the option to purchase from Canpotex further volumes up to 500,000 tonnes of Canadian potash per year comprised of the following grades: red standard grade potash, red granular grade potash, white fine standard grade potash and white standard grade potash.

Under the MOU, prices would be determined on a six-month basis through mutual negotiations between the parties with reference to prevailing international market potash prices and competitive sea import prices to the PRC. If Sinochem Macao and Canpotex could not reach final agreements on prices within 90 days from the last day of the previous six-month pricing period, both parties would be free to pursue business through alternative channels.

The annual caps for the three years ended 31 December 2020 in respect of the continuing connected transactions under the MOU were US\$250,000,000, US\$260,000,000, and US\$270,000,000, respectively.

Nutrien is a substantial shareholder of the Company, and Canpotex is owned as to 50% by Nutrien. As such, Canpotex constitutes a connected person of the Company. The transactions contemplated under the MOU constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the MOU are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 28 December 2017, and the circular dated 12 February 2018 published by the Company. The continuing connected transactions under the MOU have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 2 March 2018.

10. Lease Contract between Sinochem Fertilizer and Chemsunny

On 28 January 2015, 23 March 2018 and 11 December 2018, Sinochem Fertilizer entered into a lease contract and two supplemental agreements (the "Lease Contract") with Chemsunny, pursuant to which Sinochem Fertilizer (as the lessee) would lease the office spaces in Chemsunny World Trade Centre from Chemsunny (as the lessor) during the period ended 31 December 2020. The rentals and the management fees of the Properties were RMB1,921,987.38 and RMB155,310.21 per month, respectively, payable by Sinochem Fertilizer on a quarterly basis.

The annual cap (inclusive of the rentals, management fees and utility charges) for each of the three years ended 31 December 2020 in respect of the continuing connected transactions under the Lease Contract was RMB40,000,000.

Chemsunny is an indirect non-wholly owned subsidiary of Sinochem Group. Prior to the Change of Controlling Shareholder, Sinochem Group was the ultimate controlling shareholder of the Company. Therefore, the transactions contemplated under the Lease Contract constituted continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Lease Contract were more than 0.1% but less than 5%, such transactions were subject to the reporting, announcement and annual review requirements but were exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. After the Change of Controlling Shareholder, Sinochem Group has ceased to be the controlling shareholder of the Company and the transactions under the Lease Contract have ceased to be continuing connected transactions of the Company.

For detailed information on the aforesaid transactions, please refer to the announcements dated 28 January 2015, 23 March 2018 and 11 December 2018 published by the Company.

III. The annual caps approved for and the actual transacted amount of continuing connected transactions of the Group for the year ended 31 December 2020 are set out below:

Name of Transactions	Currency	For the year ended 31 December 2020	
		Annual Caps ('000)	Annual Transacted Amount ('000)
1. Sulphur Import Framework Agreement			
(1) Sinochem Group purchases sulphur, fertilizer and other fertilizer raw materials from overseas subsidiaries of the Company	USD	98,860	36,013
(2) Sinochem Group supplies sulphur, fertilizer and other fertilizer raw materials to Sinochem Fertilizer	RMB	710,000	216,899
2. Fertilizer Co-operation Framework Agreement			
(1) Sinochem Macao supplies fertilizer products to Sinochem Group	USD	1,126,000	232,892
(2) Sinochem Fertilizer purchases fertilizer products from Sinochem Group	RMB	8,346,000	1,180,266
3. Sinochem Fertilizer supplies fertilizer products to Sinochem Agriculture	RMB	712,000	467,667
4. Financial Services Framework Agreement			
(1) Maximum daily outstanding balance of deposits with Sinochem Finance	RMB	1,000,000	873,588
(2) Other Financial Services provided by Sinochem Finance (save for the provision of loans to the Group)	RMB	10,000	1,300
5. Agrichemical Framework Agreements			
(1) Sinochem Fertilizer purchases certain agrichemical, seed and other related products from subsidiaries of Sinochem Group	RMB	100,000	30,330
(2) Sinochem Fertilizer supplies certain agrichemical, seed and other related products to subsidiaries of Sinochem Group	RMB	100,000	—
6. New Agrichemical Framework Agreement			
(1) Sinochem Fertilizer purchases certain agrichemical, seed and other related products from subsidiaries of Syngenta Group	RMB	170,000	115,643
(2) Sinochem Fertilizer supplies certain agrichemical, seed and other related products to subsidiaries of Syngenta Group	RMB	100,000	—

Name of Transactions	Currency	For the year ended 31 December 2020	
		Annual Caps (‘000)	Annual Transacted Amount (‘000)
7. Framework Agreement in relation to Agricultural Products			
(1) Sinochem Fertilizer purchases certain agricultural products from subsidiaries of ChemChina	RMB	58,000	37,920
(2) Sinochem Fertilizer supplies certain agricultural products to subsidiaries of ChemChina	RMB	30,000	10,609
8. Sinochem Macao utilizes local supplier relations and logistics services from Sinochem UK	USD	2,300	2,300
9. Sinochem Macao purchases Canadian potash from Canpotex	USD	270,000	81,985
10. Sinochem Fertilizer leases office spaces from Chemsunny	RMB	40,000	14,158

Transactions with joint ventures and associates, and loans from Sinochem Group, Sinochem Finance and related parties, which are disclosed as related party disclosures in note 42 to the consolidated financial statements of the annual report, do not fall under the definition of connected transactions or continuing connected transactions or were fully exempt under Chapter 14A of the Listing Rules and thus are not disclosed above.

Save as disclosed, there are no other connected transactions or continuing connected transactions of the Company which require disclosure in accordance with the Listing Rules.

IV. Confirmation from Independent Non-executive Directors

In the opinion of the Independent Non-executive Directors of the Company, the continuing connected transactions for the year ended 31 December 2020 have been entered into by the Group:

- in the ordinary and usual course of its business;
- on normal commercial terms or better; and
- according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

V. Confirmation from independent auditor in respect of the continuing connected transactions

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740, *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

The Board has received a letter from the independent auditor in respect of the above disclosed continuing connected transactions, which confirmed that:

- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's Board of Directors;
- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- with respect to the aggregate amount of each of the continuing connected transactions set out above, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual cap as set by the Company.

CONTRACTS OF SIGNIFICANCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

For the period from 1 January 2020 to 16 June 2020, Sinochem Group is the ultimate controlling shareholder of the Company; while for the period from 17 June 2020 up to the date of this report, ChemChina is the ultimate controlling shareholder of the Company. The contracts of significance between the Company and/or its subsidiaries with the controlling shareholder and/or its subsidiaries during the year are disclosed in details in the section headed "Connected Transactions" in this Directors' Report.

MAJOR DISCLOSEABLE EVENTS

Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies and certain specific terms included in this section shall have the same meaning assigned to them in the respective announcements or circulars.

The Company had entered into various major discloseable events during the year, some of which have been disclosed in the section headed “Connected Transactions” above. The other major discloseable events of the Company during the year are:

1. During the year, Sinochem Fertilizer, a subsidiary of the Company completed several financing activities for replenishing the working capital and for repayment of certain debts of the Group. These financing activities are listed below:
 - (i) The first tranche of the super & short-term commercial paper for the year of 2020 in an amount of RMB0.2 billion, with a term of 180 days and at a coupon rate of 2.58% per annum, was issued on 11 March 2020, and was subsequently repaid on 8 September 2020;
 - (ii) The second tranche of the super & short-term commercial paper for the year of 2020 in an amount of RMB1 billion, with a term of 269 days and at a coupon rate of 2.2% per annum, was issued on 20 April 2020, and was subsequently repaid on 15 January 2021;
 - (iii) The third tranche of the super & short-term commercial paper for the year of 2020 in an amount of RMB0.6 billion, with a term of 180 days and at a coupon rate of 1.7% per annum, was issued on 21 May 2020, and was subsequently repaid on 18 November 2020;
 - (iv) The fourth tranche of the super & short-term commercial paper for the year of 2020 in an amount of RMB0.5 billion, with a term of 90 days and at a coupon rate of 2.35% per annum, was issued on 24 September 2020, and was subsequently repaid on 24 December 2020;
 - (v) The fifth tranche of the super & short-term commercial paper for the year of 2020 in an amount of RMB0.5 billion, with a term of 55 days and at a coupon rate of 2.1% per annum, was issued on 21 October 2020, and was subsequently repaid on 16 December 2020.
2. In order to continue to perform the obligation of Sinochem Fertilizer under the Capital Increase Agreement to provide financial support to Yangmei Pingyuan, Sinochem Fertilizer (as the lender) entered into the New Entrusted Loan Contract with Yangmei Pingyuan (as the borrower) and Sinochem Finance (as the lending agent) on 22 July 2020, pursuant to which Sinochem Fertilizer agreed to continue to provide the Entrusted Loan in the principal amount of no more than RMB670,000,000 to Yangmei Pingyuan through Sinochem Finance at an interest rate of 6.05% per annum. The term of the Entrusted Loan is from 22 July 2020 to 22 July 2021. The Entrusted Loan shall be used for the replenishment of the daily working capital of Yangmei Pingyuan.

Given that one or more of the applicable percentage ratios in respect of the Entrusted Loan are more than 5% but less than 25%, the provision of the Entrusted Loan constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. For detailed information on the aforesaid transaction and the defined terms used above, please refer to the announcement dated 22 July 2020 published by the Company.

- On 11 December 2020, the Company entered into the Financial Services Framework Agreement with Sinochem Finance, pursuant to which the Group will continue to utilize the financial services available from Sinochem Finance as it deems necessary during the period from 1 January 2021 to 31 December 2021 (both days inclusive). The Company estimated that the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for the year ending 31 December 2021 will be RMB1,000,000,000.

Sinochem Finance is a subsidiary of Sinochem Group. Following the Change of Controlling Shareholder, Sinochem Group and Sinochem Finance are no longer connected persons of the Company, and the transactions under the Financial Services Framework Agreement are no longer continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement are more than 5% but less than 25%, the Deposit Services constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements. For detailed information on the aforesaid transaction and the defined terms used above, please refer to the announcement dated 11 December 2020 published by the Company.

Save as disclosed above and in this report, the Company had no other major discloseable events during the year ended 31 December 2020.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY' LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PUBLIC FLOAT

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained sufficient public float exceeding 25% of its issued share capital throughout the year ended 31 December 2020 and up to the date of this report.

REMUNERATION POLICY

The emoluments of the Directors of the Company are reviewed by the Remuneration Committee of the Company from time to time with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the remuneration policy of the Group are set out in the "Corporate Governance Report" on page 62.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 45 to the consolidated financial statements.

HOUSING FUNDS

The Group strictly complied with the regulations of the relevant region in respect of the contribution to the housing funds for its employees.

POST BALANCE SHEET EVENT

There was no significant event occurred after the balance sheet date.

AUDITOR

As approved in the relevant annual general meetings of the Company, KPMG was appointed as auditor of the Company since the year ended 31 December 2012.

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

For and on behalf of the Board

Qin Hengde

Executive Director and Chief Executive Officer

Hong Kong, 30 March 2021

INDEPENDENT AUDITOR'S REPORT



Independent auditor's report to the shareholders of Sinofert Holdings Limited

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Sinofert Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 110 to 207, which comprise the consolidated statement of financial position as at 31 December 2020, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Assessing potential impairment of goodwill

Refer to note 18 to the consolidated financial statements and the accounting policies in note 2(o)(ii).

The Key Audit Matter

Goodwill attributable to Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary in the fertilizer industry acquired by the Group, amounted to RMB531 million as at 31 December 2020.

Management determined the recoverable amounts of the cash-generating units ("CGUs") to which the goodwill was allocated by means of discounted cash flow forecasts prepared for each of these CGUs.

Management's impairment assessment involves significant judgment, particularly in determining estimated selling prices, selling quantities and the discount rates applied, all of which can be inherently uncertain.

We identified assessing potential impairment of goodwill of Sinochem Yunlong as a key audit matter because determining the key impairment assumptions involves a significant degree of management judgment and may be subject to management bias.

How the matter was addressed in our audit

Our audit procedures to assess potential impairment of goodwill included the following:

- assessing management's identification of CGUs and the allocation of assets and liabilities to each CGU with reference to the requirements of the prevailing accounting standards;
- discussing future operating plans with management and comparing the estimated revenue and profit used in the discounted cash flow forecasts with the approved budget;
- engaging our internal valuation specialists to assist us in assessing the impairment assessment methodology adopted and the discount rates used in the discounted cash flow forecasts by performing recalculations with market and other external available information derived from companies in the similar industries;
- evaluating the sensitivity analysis prepared by management for each of the key assumptions, including estimated selling prices and selling quantities, adopted in the discounted cash flow forecasts and considering the possibility of error or management bias;
- performing a retrospective review of last year's impairment assessment and comparing the forecast data with the current year's results to assess the reliability of management's forecasting process; and
- considering the disclosures in the consolidated financial statements in respect of the impairment assessment with reference to the requirements of the prevailing accounting standards.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies in note 2(y).

The Key Audit Matter

The Group's revenue is principally generated from the sale of potash fertilizer, nitrogen fertilizer, phosphate fertilizer and compound fertilizer.

The timing of revenue recognition depends on the terms of individual sales transactions and revenue is generally recognized when fertilizers are collected by the customers from the Group's premises or when the products are delivered to the location designated by customers, which is taken to be the point in time when the control of the goods have passed to customers.

We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk that revenue could be recorded in an incorrect period or could be subject to manipulation in order to achieve financial targets and expectations.

How the matter was addressed in our audit

Our audit procedures to assess the recognition of revenue included the following:

- understanding and assessing the design, implementation and operating effectiveness of the key internal controls over the Group's systems which govern the revenue recognition;
- inspecting sales contracts with customers on a sample basis to understand and assess the terms and conditions therein which may affect the recognition of revenue;
- comparing sales transactions recorded around the year end, on a sample basis, with the underlying goods delivery notes to assess if the related revenue had been recognized in the appropriate accounting period; and
- identifying journal entries with specific risk criteria relating to revenue which were raised during the year, enquiring of management the reasons for such adjustments and inspecting underlying documentation.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yu Wai Sum.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

30 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
Revenue	4(a)	21,380,740	22,950,942
Cost of sales		(19,393,757)	(20,865,294)
Gross profit		1,986,983	2,085,648
Other income and gains	5	212,602	236,176
Selling and distribution expenses		(825,743)	(816,015)
Administrative expenses		(587,942)	(648,406)
Other expenses and losses	7(a)	(156,934)	(59,031)
Profit from operations		628,966	798,372
Share of results of associates		40,020	20,361
Share of results of joint ventures		39,790	(290)
Loss on liquidation of an associate		–	(49)
Gain on liquidation of a joint venture		–	2,319
Finance costs	6	(37,034)	(170,388)
Profit before taxation	7(b)	671,742	650,325
Income tax	8(a)	(18,317)	(5,993)
Profit for the year		653,425	644,332
Profit for the year attributable to:			
– Owners of the Company		644,074	615,767
– Non-controlling interests		9,351	28,565
		653,425	644,332

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2020

(Expressed in RMB)

	Note	2020 RMB'000	2019 RMB'000
Profit for the year		653,425	644,332
Other comprehensive income			
<i>Item that will not be reclassified to profit or loss:</i>			
Equity investments at fair value through other comprehensive income			
– net movement in fair value reserve (non-recycling)		(56,307)	(82,106)
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of overseas subsidiaries		(88,710)	36,614
Other comprehensive income for the year	9	(145,017)	(45,492)
Total comprehensive income for the year		508,408	598,840
Total comprehensive income attributable to:			
– Owners of the Company		499,057	570,275
– Non-controlling interests		9,351	28,565
		508,408	598,840
Earnings per share			
Basic and diluted (RMB)	13	0.0917	0.0877

The notes on pages 120 to 207 form part of these financial statements. Details of dividends payable to equity shareholders of the Company for the year are set out in note 12.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2020

(Expressed in RMB)

		As at 31 December	
	Note	2020 RMB'000	2019 RMB'000
Non-current assets			
Property, plant and equipment	14	2,808,287	2,394,497
Right-of-use assets	15	503,215	455,754
Mining rights	16	479,545	513,113
Intangible assets	17	17,229	–
Goodwill	18	831,107	850,429
Interests in associates	19	619,045	532,880
Interests in joint ventures	20	394,618	354,828
Other equity securities	21	312,286	390,570
Prepayments for acquisition of property, plant and equipment		83,640	59,664
Loans to a related party	26	950,000	–
Deferred tax assets	35	89,329	68,914
Other long-term assets	22	742,986	614,767
		7,831,287	6,235,416
Current assets			
Inventories	23	5,323,067	5,375,220
Trade and bills receivables	24	571,719	405,681
Other receivables and prepayments	25	1,945,754	1,900,960
Loans to related parties	26	670,000	920,000
Other financial assets	27	4,657	400,000
Time deposits		–	302,500
Cash and cash equivalents	28	762,548	1,333,998
		9,277,745	10,638,359

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2020

(Expressed in RMB)

		As at 31 December	
	Note	2020 RMB'000	2019 RMB'000
Current liabilities			
Trade and bills payables	29	2,425,679	3,385,773
Contract liabilities	30	3,680,473	2,263,578
Other payables	31	657,220	679,316
Bank loans	32	714,297	–
Short-term commercial paper	33	1,000,000	2,400,000
Lease liabilities	34	40,524	23,308
Tax liabilities		18,627	13,305
		8,536,820	8,765,280
Net current assets		740,925	1,873,079
Total assets less current liabilities		8,572,212	8,108,495
Non-current liabilities			
Lease liabilities	34	12,403	1,043
Deferred income		152,553	130,132
Deferred tax liabilities	35	171,622	183,591
Other long-term liabilities		69,083	92,329
		405,661	407,095
NET ASSETS		8,166,551	7,701,400

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2020

(Expressed in RMB)

	Note	As at 31 December	
		2020 RMB'000	2019 RMB'000
CAPITAL AND RESERVES			
Issued equity	36	5,887,384	5,887,384
Reserves		2,115,934	1,863,461
Total equity attributable to owners of the Company		8,003,318	7,750,845
Non-controlling interests		163,233	(49,445)
TOTAL EQUITY		8,166,551	7,701,400

The consolidated financial statements on pages 110 to 207 were approved and authorized for issue by the board of directors on 30 March 2021 and are signed on its behalf by:

Qin Hengde
Director

Feng Mingwei
Director

The notes on pages 120 to 207 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

(Expressed in RMB)

Note	Attributable to owners of the Company										Total equity RMB'000
	Issued equity RMB'000	Capital and other reserve RMB'000 (note a)	Statutory reserve RMB'000 (note b)	Contributed surplus RMB'000 (note c)	Fair value reserve (non-recycling) RMB'000 (note d)	Special reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	
Balance at 1 January 2019	5,887,384	645,205	366,484	1,908,520	(190)	65,429	(523,728)	(1,005,855)	7,343,249	(102,270)	7,240,979
Profit for the year	-	-	-	-	-	-	-	615,767	615,767	28,565	644,332
Other comprehensive income for the year	-	-	-	-	(82,106)	-	36,614	-	(45,492)	-	(45,492)
Total comprehensive income for the year	-	-	-	-	(82,106)	-	36,614	615,767	570,275	28,565	598,840
Maintenance and production fund	e	-	-	-	-	5,275	-	(5,275)	-	-	-
Dividend declared	12	-	-	-	(138,419)	-	-	-	(138,419)	-	(138,419)
Capital injection to a subsidiary, only by the Group	-	(24,260)	-	-	-	-	-	-	(24,260)	24,260	-
Balance at 31 December 2019 and 1 January 2020	5,887,384	620,945	366,484	1,770,101	(82,296)	70,704	(487,114)	(395,363)	7,750,845	(49,445)	7,701,400
Profit for the year	-	-	-	-	-	-	-	644,074	644,074	9,351	653,425
Other comprehensive income for the year	-	-	-	-	(56,307)	-	(88,710)	-	(145,017)	-	(145,017)
Total comprehensive income for the year	-	-	-	-	(56,307)	-	(88,710)	644,074	499,057	9,351	508,408
Maintenance and production fund	e	-	-	-	-	434	-	(434)	-	-	-
Capital injection into a subsidiary	37	-	(58,672)	-	-	-	-	-	(58,672)	208,672	150,000
Dividend declared	12	-	-	-	(187,912)	-	-	-	(187,912)	(5,345)	(193,257)
Disposal of other equity securities	-	-	-	-	1,688	-	-	(1,688)	-	-	-
Balance at 31 December 2020	5,887,384	562,273	366,484	1,582,189	(136,915)	71,138	(575,824)	246,589	8,003,318	163,233	8,166,551

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2020

(Expressed in RMB)

Notes:

- a. Capital and other reserve comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of shares issued by the holding companies as consideration for the Group restructuring transactions in previous years; contributions from/distributions to the then ultimate holding company, Sinochem Group Co., Ltd. ("Sinochem Group", established in the People's Republic of China (the "PRC")); the difference between the carrying amount of non-controlling interests acquired and the fair value of consideration paid; and the share of the investee's net assets changes, other than profit or loss or other comprehensive income and distributions received.
- b. Statutory reserve comprises reserve fund and enterprise expansion fund. In accordance with relevant rules and regulations on foreign investment enterprise established in the PRC, the Company's PRC subsidiaries are required to transfer a portion of their profit after income tax to the reserve fund, until the accumulated amount of the fund reaches 50% of their registered capital. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC. Reserve fund and enterprise expansion fund may be used to make good previous years' losses, if any, and may be converted into capital in proportion to the existing equity interests of investors.
- c. Contributed surplus may be used to declare or pay a dividend or make a distribution by the Company in accordance with the Companies Act 1981 of Bermuda.
- d. Fair value reserve (non-recycling) comprises the cumulative net change in the fair value, net of tax, of equity investments designated at fair value through other comprehensive income (FVOCI) under HKFRS 9, Financial instruments that are held at the end of reporting period.
- e. Special reserve comprises the fund received which can only be utilized for energy saving and emission reduction projects, and the maintenance and production fund appropriated/utilized in accordance to relevant PRC regulations on certain enterprises.
- f. Exchange reserve comprises all foreign currency differences arising from the translation of the financial statements presented in any currencies other than RMB which are dealt with in accordance with the accounting policies as set out in note 2(z).

The notes on pages 120 to 207 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

(Expressed in RMB)

	2020 RMB'000	2019 RMB'000
Operating activities		
Profit before taxation	671,742	650,325
Adjustments for:		
Share of results of associates	(40,020)	(20,361)
Share of results of joint ventures	(39,790)	290
Dividend income from listed equity securities	(3,872)	(5,080)
Write-off of payables	(8,850)	(10,653)
Release of deferred income	(7,579)	(12,943)
Interest income from related parties	(50,534)	(73,776)
Interest income from time deposits	(9,363)	(6,571)
Other interest income	(62,555)	(55,210)
Fair value changes of financial assets	1,609	–
Fair value changes of forward foreign exchange contracts	52,643	–
Finance costs	37,034	170,388
Loss on liquidation of an associate	–	49
Gain on liquidation of a joint venture	–	(2,319)
Depreciation of property, plant and equipment	154,501	239,251
Depreciation of right-of-use assets	66,976	35,388
Amortization of mining rights	33,568	33,063
Amortization of intangible assets	2,838	–
Amortization of other long-term assets	14,773	7,001
Impairment loss on property, plant and equipment	16,694	13,563
Impairment loss on intangible assets	110	–
Impairment of trade and bills receivables	6,391	5,319
Impairment recognized/(reversal of impairment) of other receivables and prepayments	18,541	(1,518)
Loss on disposal of property, plant and equipment	11,804	6,106
Write-down of inventories	21,800	8,559
Operating cash flows before movements in working capital	888,461	980,871
(Increase)/decrease in inventories	(25,299)	178,352
(Increase)/decrease in trade and bills receivables	(172,429)	145,389
(Increase)/decrease in other receivables and prepayments	(131,758)	469,556
Increase in deferred income	30,000	70,000
(Decrease)/increase in trade and bills payables	(929,464)	244,511
Increase/(decrease) in other payables and contract liabilities	1,357,575	(737,377)
Cash generated from operations	1,017,086	1,351,302
Income tax paid	(26,714)	(24,064)
Net cash generated from operating activities	990,372	1,327,238

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2020

(Expressed in RMB)

	2020 RMB'000	2019 RMB'000
Investing activities		
Purchase of property, plant and equipment	(601,014)	(761,220)
Proceeds from disposal of property, plant and equipment	37,210	5,335
Acquisition of intangible assets	(20,177)	–
Additions of other long-term assets	(111,231)	(6,930)
Additions of prepaid lease payments	(27,481)	(41,168)
Consideration received from liquidation of an associate	–	3,816
Consideration received from liquidation of a joint venture	–	61,190
Loans to related parties	(1,920,000)	(1,238,000)
Loans repaid from related parties	1,220,000	2,288,000
Payment for purchase of other financial assets	(7,725,906)	(3,200,000)
Proceeds from sale of other financial assets	8,119,640	2,997,725
Placement of time deposits	(800,000)	(437,070)
Proceeds from withdrawal of time deposits	1,102,500	634,570
Interest received from related parties	50,534	73,776
Interest income from time deposits and other interest income	78,733	66,072
Dividends received from listed equity securities	3,872	5,080
Dividends received from an associate	3,192	–
Addition to investment in an associate	(89,901)	–
Proceeds from disposal of an unlisted equity security	3,312	–
Net cash (used in)/generated from investing activities	(676,717)	451,176

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2020

(Expressed in RMB)

	Notes	2020 RMB'000	2019 RMB'000
Financing activities			
Repayment of bank and other loans	28(b)	(1,687,554)	(5,382,162)
Proceeds from new bank and other loans	28(b)	2,401,851	5,324,662
Repayment of bonds	28(b)	–	(3,027,885)
Proceeds from short-term commercial paper	28(b)	2,800,000	3,400,000
Repayment of short-term commercial paper	28(b)	(4,200,000)	(1,000,000)
Capital element of lease rentals paid	28(b)	(58,380)	(22,027)
Interest element of lease rentals paid	28(b)	(3,144)	(1,403)
Other Interest paid	28(b)	(87,214)	(183,837)
Capital injection from non-controlling interests	37	150,000	–
Dividends paid		(194,630)	(143,078)
Net cash used in financing activities		(879,071)	(1,035,730)
Net (decrease)/increase in cash and cash equivalents		(565,416)	742,684
Cash and cash equivalents at 1 January	28(a)	1,333,998	589,130
Effect of foreign exchange rate changes		(6,034)	2,184
Cash and cash equivalents at 31 December	28(a)	762,548	1,333,998

The notes on pages 120 to 207 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

1 GENERAL

Sinofert Holdings Limited (the “Company”, together with its subsidiaries hereinafter collectively referred to as the “Group”) is a limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited. Its immediate holding company is CNAC(HK) Holdings company Limited (“CNAC(HK)”, incorporated in Hong Kong) and its ultimate holding company is China National Chemical Co., Ltd. (“ChemChina”). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Unit 4705, 47th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The Group is mainly engaged in manufacturing and selling of fertilizers and related products. Details of the Company’s principal subsidiaries are set out in note 44.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”). Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain amendments to HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2020 comprise the Group and the Group’s interest in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as other equity securities and other financial assets (see note 2(g));
- derivative financial instruments (see note 2(h)); and
- bills receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of preparation of the financial statements (continued)

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Company and subsidiaries incorporated in Hong Kong have their functional currency in Hong Kong dollars ("HK\$") and subsidiaries established in the PRC, Macao Special Administrative Region ("Macao") and Republic of Singapore ("Singapore") have their functional currencies in RMB, United States dollars ("US\$") and US\$, respectively. As majority of the Group's operation are conducted by the Group's subsidiaries in the PRC, the consolidated financial statements are presented in RMB.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized 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.

Judgments made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

(c) Changes in accounting policies

The Group has applied the following amendments to HKFRSs issued by the HKICPA to these financial statements for the current accounting period:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendment to HKFRS 16, *Covid-19-Related Rent Concessions*

Other than the amendment to HKFRS 16, the Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

None of these developments has had a material effect on how to the Group's results and financial position for the current or prior periods have been prepared or presented in these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions, and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group choose to measure any non-controlling interests at fair value of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(o)(ii)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and 2(o)(ii)). At each reporting date, the Group assesses whether there is any objective evidence that the investment is impaired. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are included in the Group's consolidated profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the Group's other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture (after applying the expected credit losses (ECLs) model to such other long-term interests where applicable).

Unrealized profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (continued)

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)).

A decrease in interest in an equity-accounted investee while maintaining equity accounting can result from a dilution. The Group's policy is to recognize any gain or loss on dilution directly in equity, except when impairment indicators exist then the Group first assesses and recognizes any impairment loss in accordance with the accounting policies described in note 2(o)(ii).

(f) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(o)(ii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 39(f). These investments are subsequently accounted for as follows, depending on their classification.

(i) *Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(y)(iv)).
- FVOCI-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Other investments in debt and equity securities (continued)

(ii) *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in note 2(y)(iii).

(h) Derivative financial Instruments

Derivative financial Instruments are recognized at fair value. At the end of each reporting period the value is remeasured. The gain or loss on remeasurement to fair value recognized immediately in profit or loss, except where the derivatives qualify for cash flow hedge accounting or hedges of net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(o)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(aa)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognized in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write-off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives other than mining structures (see note 2(k)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property, plant and equipment (continued)

The estimated useful lives of property, plant and equipment are as follows:

Category	Years of depreciation
Buildings	20-30 years
Plant, machinery and equipment	10-14 years
Motor vehicles	8 years
Furniture and fixtures	4 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(j) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(o)(ii)). Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

(k) Mining rights

Mining rights are stated at cost less accumulated amortization and impairment losses (see note 2(o)(ii)) and are amortized based on the units of production method utilizing only recoverable reserves as the depletion base.

(l) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(o)(ii)). Expenditure on internally generated goodwill and brands is recognized as an expense in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Intangible assets (other than goodwill) (continued)

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Software and others	5-10 years
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Both the period and method of amortisation are reviewed annually.

(m) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

Where the contract contains lease component(s) and non-lease component(s), the Group has elected to separate lease components from non-lease components and allocated the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

At the lease commencement date, the Group recognizes a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalize the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalized are recognized as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognized at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Leased assets (continued)

(i) As a lessee (continued)

The right-of-use asset recognized when a lease is capitalized is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see note 2(o)(ii)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The lease liability is also remeasured when there is a change in the scope of a lease or the consideration for a lease that is not originally provided for in the lease contract ("lease modification") that is not accounted for as a separate lease. In this case the lease liability is remeasured based on the revised lease payments and lease term using a revised discount rate at the effective date of the modification. The only exceptions are any rent concessions which arose as a direct consequence of the COVID-19 pandemic and which satisfied the conditions set out in paragraph 46B of HKFRS 16 *Leases*. In such cases, the Group took advantage of the practical expedient set out in paragraph 46A of HKFRS 16 and recognized the change in consideration as if it were not a lease modification.

In the consolidated statement of financial position, the current portion of long-term lease liabilities is determined as the present value of contractual payments that are due to be settled within twelve months after the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Leased assets (continued)

(ii) *As a lessor*

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to the ownership of an underlying assets to the lessee. If this is not the case, the lease is classified as an operating lease.

When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. The rental income from operating leases is recognized in accordance with note 2(y)(ii).

When the Group is an intermediate lessor, the sub-leases are classified as a finance lease or as an operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the exemption described in note 2(m)(i), then the Group classifies the sub-lease as an operating lease.

(n) Activators

Activators held for use in the production of goods are stated at cost less subsequent accumulated amortization and accumulated impairments losses. Amortization is provided using the straight-line method over the estimated useful lives of 2 – 10 years.

(o) Credit losses and impairment of assets

(i) *Credit losses from financial instruments*

The Group recognizes a loss allowance for ECLs on financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties).

Other financial assets measured at fair value, including financial instruments measured at FVPL and equity securities designated at FVOCI (non-recycling) are not subject to the ECL assessment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Basis of calculation of interest income

Interest income recognized in accordance with note 2(y)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- prepayments for acquisition of property, plant and equipment;
- right-of-use assets;
- mining rights;
- intangible assets;
- other long-term assets;
- goodwill;
- investments in associates and joint ventures; and
- investment in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

– Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating units (“CGUs”) (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset’s carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(p) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

Inventories are carried at the lower of cost and net realizable value. Cost is calculated using the moving weighted-average method, and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Inventories (continued)

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

The Group take advantage of practical expedient in paragraph 94 of HKFRS15 and recognize the incremental costs of obtaining a contract as an expense if the amortization of the asset is less than one year.

(q) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see note 2(o)(i)) except for bills receivable.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(o)(i).

(s) Trade and other payables

Trade and other payables are initially recognized at fair value and subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Contract liabilities

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see note 2(y)). A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see note 2(q)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(u) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see note 2(aa)).

(v) Employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(w) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(w) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(x) Provisions and contingent liabilities

Provisions are recognized when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(y) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) *Sale of goods*

Revenue is recognized when the customers collect the goods from the Group's premises or when the products are delivered to the location designated by customers. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

The goods can only be returned due to product quality issue. Because the number of return is extremely low in previous years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Revenue and other income

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Variable lease payments that do not depend on an index or a rate are recognized as income in the accounting period in which they are earned.

(iii) Dividends

- Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method. For financial assets measured at amortized cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(o)(i)).

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are recognized as deferred income and subsequently recognized in profit or loss over the useful life of the related asset on a reasonable and systematic manner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(z) Translation of foreign currencies

The financial statements are presented in RMB, which is the currency of the primary economic environment in which the major entities of the Group operate. The functional currency of the Company is HK\$.

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognizes such non-monetary assets or liabilities. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(aa) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(bb) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognized at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognized in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortized.

(cc) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(cc) Related parties (continued)

- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (viii) The entity, or any member of a group of which it is apart, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(dd) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies which are described in note 2, the directors of the Company have made judgments, estimates and assumptions concerning the future that have a significant risk of material adjustments on the amounts recognized in the consolidated financial statements within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. Details of the recoverable amount calculation are disclosed in note 18.

Provision of inventories

Inventories are stated at the lower of cost or net realizable value. Net realizable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. The directors of the Company reassess these estimates at the end of each reporting period. The carrying amount of inventories was disclosed in note 23.

4 REVENUE AND SEGMENT REPORTING

(a) Revenue

Revenue represents the sales value of fertilizers and related products. Disaggregation of revenue from contracts with customers by major products is as follows:

	2020 RMB'000	2019 RMB'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products		
– Sales of potash fertilizer	3,868,006	3,842,063
– Sales of nitrogen fertilizer	4,981,386	5,336,601
– Sales of compound fertilizer	5,703,913	5,852,289
– Sales of phosphate fertilizer	4,116,953	5,004,695
– Sales of monocalcium/dicalcium phosphate ("MCP/DCP")	826,843	879,096
– Sales of special fertilizer	413,785	226,035
– Others	1,469,854	1,810,163
	21,380,740	22,950,942

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(a) Revenue (continued)

No revenue from a single external customer accounts for 10% or more of the Group's revenue during both years.

The Group takes advantage of practical expedient in paragraph 121 of HKFRS 15 and does not disclose the remaining performance obligation as all of the Group's sales contracts have an original expected duration of less than one year.

(b) Segment reporting

The Group's operating segments based on information reported to the chief operating decision maker ("CODM") for the purpose of resource allocation and performance assessment are as follows:

- Basic fertilizers: sourcing and trading of straight fertilizers such as nitrogen, phosphate and potash
- Distribution: building of distribution channels, sourcing and selling of compound fertilizers and new type of fertilizer
- Production: production and sales of fertilizers and MCP/DCP, and also including share of results of associates held by subsidiaries in Production segment

(i) Segment results

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned made by each segment without taking into account of unallocated share of results of associates and joint ventures, unallocated expenses/income and finance costs in relation to the unallocated interest-bearing borrowings and short-term commercial paper. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at market prices between group entities.

Given the production and trading of fertilizers are closely linked, the CODM considered segment assets and liabilities information was not relevant in assessing performance of and resources allocation to the operating segments. Such information was not reviewed by the CODM. As such, no segment assets and liabilities are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

2020	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue					
External revenue	13,350,776	6,506,377	1,523,587	–	21,380,740
Internal revenue	994,905	8,855	382,113	(1,385,873)	–
Segment revenue	14,345,681	6,515,232	1,905,700	(1,385,873)	21,380,740
Share of results of associates	–	–	(5,772)	–	(5,772)
Segment profit	510,218	150,033	225,850	–	886,101
Unallocated share of results of associates					45,792
Unallocated share of results of joint ventures					39,790
Unallocated expenses					(423,991)
Unallocated income					124,050
Profit before taxation					671,742

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(i) Segment results (continued)

2019	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue					
External revenue	14,589,804	6,243,042	2,118,096	–	22,950,942
Internal revenue	970,700	12,599	1,412,424	(2,395,723)	–
Segment revenue	15,560,504	6,255,641	3,530,520	(2,395,723)	22,950,942
Share of results of associates	–	–	2,381	–	2,381
Segment profit	493,717	107,577	265,110	–	866,404
Unallocated share of results of associates					17,980
Unallocated share of results of joint ventures					(290)
Unallocated expenses					(372,582)
Unallocated income					138,813
Profit before taxation					650,325

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information

2020	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measures of segment profit:					
Impairment of trade and bills receivables	(5,734)	(356)	(13)	(288)	(6,391)
Impairment of other receivables and prepayments	(11,552)	(5,247)	(1,742)	–	(18,541)
Impairment loss on property, plant and equipment	–	(11,379)	(2,581)	(2,734)	(16,694)
Impairment loss on intangible assets	–	(110)	–	–	(110)
Depreciation and amortization	(45,313)	(61,854)	(157,747)	(7,742)	(272,656)
Write-down of inventories	(11,242)	(4,558)	(5,180)	(820)	(21,800)
Loss on disposal of property, plant and equipment	(58)	(11,217)	(529)	–	(11,804)
Write-off of payables	709	426	7,677	38	8,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information (continued)

2019	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measures of segment profit:					
Impairment of trade and bills receivables	(5,322)	–	3	–	(5,319)
Reversal of impairment of other receivables and prepayments	–	–	1,518	–	1,518
Impairment loss on property, plant and equipment	–	–	(13,563)	–	(13,563)
Depreciation and amortization	(7,878)	(51,049)	(252,175)	(3,601)	(314,703)
Write-down of inventories	(3,886)	(1,995)	(2,678)	–	(8,559)
Loss on disposal of property, plant and equipment	(134)	(83)	(5,889)	–	(6,106)
Write-off of payables	3,034	2,289	5,330	–	10,653

(iii) Geographical information

The Group's operations are mainly located in Mainland China and Macao.

Information about the Group's revenue from its operations from external customers is presented based on the customers' location of incorporation/establishment. Information about the Group's non-current assets other than other equity securities and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets As at 31 December	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
Mainland China	20,602,272	22,125,075	7,427,721	5,771,562
Others	778,468	825,867	1,951	4,370
	21,380,740	22,950,942	7,429,672	5,775,932

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

5 OTHER INCOME AND GAINS

	2020 RMB'000	2019 RMB'000
Rental income	7,713	12,281
Dividend income from listed equity securities	3,872	5,080
Interest income from related parties	50,534	73,776
Interest income from time deposits	9,363	6,571
Other interest income	62,555	55,210
Government grants (<i>Note</i>)	4,264	17,046
Sales of semi-product, raw materials and scrapped materials	39,073	20,332
Release of deferred income	7,579	12,943
Insurance claims received	4,091	4,771
Write-off of payables	8,850	10,653
Others	14,708	17,513
	212,602	236,176

Note: Government grants mainly comprised payments from the government to support the business development of the Group entities in the PRC.

6 FINANCE COSTS

	2020 RMB'000	2019 RMB'000
Interest on borrowings	71,718	187,397
Interest on lease liabilities	3,144	1,403
Less: interest expense capitalized (<i>Note</i>)	(37,828)	(18,412)
	37,034	170,388

Note: The capitalization rate used to determine the amount of borrowing costs eligible for capitalization related to construction of production lines is 2.60% (2019: 4.02%) for the year ended 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

7 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Other expenses and losses

	2020 RMB'000	2019 RMB'000
Impairment loss on property, plant and equipment	16,694	13,563
Loss on disposal of property, plant and equipment	11,804	6,106
Impairment recognized/(reversal of impairment) of other receivables and prepayments	18,541	(1,518)
Impairment of trade and bills receivables	6,391	5,319
Write-down of inventories	21,800	8,559
Fair value changes of forward foreign exchange contracts	52,643	–
Fair value changes of other financial assets	1,609	–
Foreign exchange loss	9,756	1,803
Impairment loss on intangible assets	110	–
Others	17,586	25,199
	156,934	59,031

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

7 PROFIT BEFORE TAXATION (CONTINUED)

(b) Other items

	Note	2020 RMB'000	2019 RMB'000
Director's emoluments	10	21,925	13,977
Other staff benefits	a	770,973	746,471
Total employee benefits expenses		792,898	760,448
Depreciation charge			
– owned property, plant and equipment		154,501	239,251
– right-of-use assets		66,976	35,388
Amortization of mining rights		33,568	33,063
Amortization of other long-term assets		14,773	7,001
Amortization of intangible assets		2,838	–
Auditors' remuneration		3,850	3,850
Expense relating to short-term leases and leases of low value assets, which not included in the measurement of lease liabilities		21,089	23,693
Loss on liquidation of an associate		–	49
Gain on liquidation of a joint venture		–	(2,319)

Note:

- a Contributions to retirement benefit scheme included in other staff benefits for the year ended 31 December 2020 amounted to RMB43,920,000 (2019: RMB68,189,000).

According to the Notice on Periodic Reduction and Exemption of Corporate Social Insurance (Ren She Bu Fa [2020] No.11) issued by Ministry of Human Resources and Social Security of PRC, Ministry of Finance of PRC and State Taxation Administration of PRC, some subsidiaries of the Group enjoyed a reduction of social insurance payment ranged from 50% to 100% for the period from 1 February 2020 to 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2020 RMB'000	2019 RMB'000
Provision for the year	(30,089)	(23,497)
Under-provision in prior years	(1,947)	–
Deferred tax		
Origination and reversal of temporary differences	13,719	17,504
	(18,317)	(5,993)

- (i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands ("BVI"), the Group is not subject to income tax in Bermuda and the BVI.
- (ii) The provision for Hong Kong Profits Tax for 2020 is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year.
- (iii) The provision for the PRC Enterprise Income Tax is based on the statutory rate of 25% on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year, except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.
- (iv) A subsidiary of the Group incorporated in Macao is exempted from income tax.
- (v) The provision for Singapore Profits Tax for 2020 is calculated at 17% (2019: 17%) of the estimated assessable profits for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2020 RMB'000	2019 RMB'000
Profit before taxation	671,742	650,325
Tax calculated at the applicable tax rate of 25%	(167,936)	(162,581)
Effect of different income tax rates	47,545	58,071
Tax effect of non-deductible expenses	(10,214)	(9,352)
Tax effect of non-taxable income	290	255
Tax effect of share of results of associates	10,005	5,090
Tax effect of share of results of joint ventures	9,948	(72)
Effect of prior year unrecognized tax losses and deductible temporary differences recognized during the year	109,446	106,085
Effect of tax losses and deductible temporary difference not recognized	(15,454)	(3,489)
Under-provision in prior years	(1,947)	–
Income tax expense for the year	(18,317)	(5,993)

9 OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2020			2019		
	Before-tax amount RMB'000	Tax benefit RMB'000	Net-of-tax amount RMB'000	Before-tax amount RMB'000	Tax benefit RMB'000	Net-of-tax amount RMB'000
Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	(74,972)	18,665	(56,307)	(107,925)	25,819	(82,106)
Exchange differences on translation of financial statements of overseas subsidiaries	(88,710)	–	(88,710)	36,614	–	36,614
	(163,682)	18,665	(145,017)	(71,311)	25,819	(45,492)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

10 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2020

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000 (Note a)	Retirement benefits scheme contribution RMB'000	Total RMB'000
Chairman and Non-executive director					
Mr. J. Erik Fyrwald (Note b) (appointed on 2 November 2020)	-	-	-	-	-
Executive directors					
Mr. QIN Hengde	-	3,607	8,639	41	12,287
Mr. FENG Mingwei (appointed on 25 February 2020)	-	1,829	2,735	39	4,603
Mr. Harry YANG	-	1,296	1,273	39	2,608
Non-executive director					
Mr. YANG Lin (Note b) (resigned on 2 November 2020)	-	-	-	-	-
Independent non-executive directors					
Mr. KO Ming Tung, Edward	478	-	-	-	478
Mr. LU Xin	478	-	-	-	478
Mr. TSE Hau Yin, Aloysius	563	-	-	-	563
	1,519	6,732	12,647	119	21,017
Rental expenses for directors					
Mr. QIN Hengde					396
Mr. Harry YANG					512
					21,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

10 DIRECTORS' EMOLUMENTS (CONTINUED)

2019

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000 (Note a)	Retirement benefits scheme contribution RMB'000	Total RMB'000
Executive directors					
Mr. QIN Hengde	–	2,168	6,994	49	9,211
Mr. Harry YANG	–	1,083	1,234	50	2,367
Non-executive directors					
Mr. YANG Lin (Note b)	–	–	–	–	–
Mr. ZHANG Wei (resigned on 11 January 2019)	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	474	–	–	–	474
Mr. LU Xin	474	–	–	–	474
Mr. TSE Hau Yin, Aloysius	558	–	–	–	558
	1,506	3,251	8,228	99	13,084
Rental expenses for directors					
Mr. QIN Hengde					386
Mr. Harry YANG					507
					13,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

10 DIRECTORS' EMOLUMENTS (CONTINUED)

Notes:

- a. The performance related incentive payments were determined with reference to the operating results of the Group, individual performance and relevant comparable market statistics during the years ended 31 December 2020 and 2019.
- b. Mr. J. Erik Fyrwald and Mr. Yang Lin, being non-executive directors of the Company, had agreed to waive their director's fee for the year ended 31 December 2020. The amount waived by Mr. J. Erik Fyrwald and Mr. Yang Lin were HK\$74,000 and HK\$372,000 respectively (equivalent to approximately RMB65,000 and RMB 327,000).

Directors' fee waived by Mr. Yang Lin was HK\$443,000 (equivalent to approximately RMB390,000) for the year ended 31 December 2019.

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2019: two) were directors of the Company, whose emoluments are disclosed in note 10. The emoluments of the remaining two (2019: three) individuals were as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	2,519	3,093
Performance related incentive payment	4,002	5,580
Retirement benefits scheme contribution	68	150
	6,589	8,823

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS (CONTINUED)

The emoluments were within the following bands:

	2020 <i>Number of individuals</i>	2019 <i>Number of individuals</i>
HK\$2,000,001 to HK\$2,500,000	–	1
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	–	1
	2	3

12 DIVIDENDS

(a) Dividends payable to equity shareholders of the Group attributable to the year

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
Proposed final dividend of HK\$0.0327, equivalent to approximately RMB0.0275, per share (2019: HK\$0.0294, equivalent to approximately RMB0.0263, per share)	193,315	185,000

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

12 DIVIDENDS (CONTINUED)

- (b) Dividends payable to equity shareholders of the Group attributable to the previous financial year, approved and paid during the year

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK\$0.0294 per share (2019: HK\$0.0224).	187,912	138,419

13 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2020 RMB'000	2019 RMB'000
Earnings attributable to owners of the Company		
Earnings for the purpose of basic/diluted earnings per share	644,074	615,767
	2020 '000 shares	2019 '000 shares
Number of shares		
Weighted average number of ordinary shares for the purpose of basic/diluted earnings per share	7,024,456	7,024,456

The Group has no dilutive ordinary shares outstanding during the years ended 31 December 2020. Therefore, there was no difference between basic and diluted earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture & fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2019	2,565,603	3,230,819	60,573	334,112	428,444	6,619,551
Exchange realignment	6	–	26	27	–	59
Additions	56,404	32,508	6,966	7,458	553,650	656,986
Transfer from construction in progress	25,704	3,854	–	81,913	(111,471)	–
Disposals	(10,039)	(29,720)	(4,951)	(4,456)	(181)	(49,347)
Others (Note(iii))	(814,447)	(1,126,760)	(76)	(112,950)	–	(2,054,233)
At 31 December 2019	1,823,231	2,110,701	62,538	306,104	870,442	5,173,016
At 1 January 2020	1,823,231	2,110,701	62,538	306,104	870,442	5,173,016
Exchange realignment	(19)	–	(149)	(121)	–	(289)
Additions	21,475	20,764	3,602	21,918	539,073	606,832
Transfer from construction in progress	218,869	141,139	787	9,857	(370,652)	–
Disposals	(38,563)	(141,495)	(8,154)	(8,157)	(3,439)	(199,808)
At 31 December 2020	2,024,993	2,131,109	58,624	329,601	1,035,424	5,579,751
Accumulated depreciation and impairment						
At 1 January 2019	(1,310,034)	(2,577,786)	(33,206)	(205,239)	(18,855)	(4,145,120)
Exchange realignment	–	–	(20)	(23)	–	(43)
Charge for the year	(77,860)	(131,594)	(6,751)	(23,046)	–	(239,251)
Impairment loss	(5,650)	(7,758)	–	(155)	–	(13,563)
Disposals	6,366	27,296	2,567	1,677	–	37,906
Others (Note(iii))	455,685	1,020,848	52	104,967	–	1,581,552
At 31 December 2019	(931,493)	(1,668,994)	(37,358)	(121,819)	(18,855)	(2,778,519)
At 1 January 2020	(931,493)	(1,668,994)	(37,358)	(121,819)	(18,855)	(2,778,519)
Exchange realignment	8	–	99	82	–	189
Charge for the year	(49,916)	(74,719)	(5,336)	(24,530)	–	(154,501)
Impairment loss (Note(iii))	(9,154)	(4,704)	–	(398)	(2,438)	(16,694)
Disposals	38,062	126,088	6,687	7,224	–	178,061
At 31 December 2020	(952,493)	(1,622,329)	(35,908)	(139,441)	(21,293)	(2,771,464)
Net book value						
At 31 December 2020	1,072,500	508,780	22,716	190,160	1,014,131	2,808,287
At 31 December 2019	891,738	441,707	25,180	184,285	851,587	2,394,497

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Notes:

- (i) Certain items of property, plant and equipment were pledged to secure banking facilities granted to the Group as disclosed in note 32(a).
- (ii) In view of the planned termination of the production of certain fertilizer products, the Group planned to replace the related fertilizer production lines. The carrying amounts of these production lines of RMB16,694,000 were fully impaired.
- (iii) The government of Fuling District in Chongqing ("the Government") and the Group entered into a relocation agreement ("the relocation agreement") on 6 August 2019. Pursuant to the relocation agreement, Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, will relocate its factories in Nananpu, demolish the buildings, restore the land and return it to the Government no later than June 2021. In return, the Government will compensate the losses of Sinochem Fuling arising from the relocation, with a cap of RMB billion, after the use right of the land was transferred to the Government.

Sinochem Fuling started demolishing the factory in November 2019. The carrying amounts of the related property, plant and equipment and also the land lease prepayment were reclassified as other long-term assets (note 22). Based on current estimation, the directors of the Company are of the view that the compensation receivable is sufficient to cover the expected loss of the Group and hence no impairment provision is made over these other long-term assets as at 31 December 2019 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

15 RIGHT-OF-USE ASSETS

The analysis of the net book value of right-of-use assets by class of underlying assets is as follows:

	Properties leased for own use, carried at depreciated cost RMB'000	Land use rights RMB'000	Total RMB'000
Cost			
At 1 January 2019	42,258	676,310	718,568
Additions	4,120	41,168	45,288
Others (Note)	–	(114,006)	(114,006)
At 31 December 2019 and 1 January 2020	46,378	603,472	649,850
Additions	86,956	27,481	114,437
Lease matured	(42,258)	–	(42,258)
At 31 December 2020	91,076	630,953	722,029
Accumulated depreciation			
At 1 January 2019	–	(187,820)	(187,820)
Charge for the year	(22,456)	(12,932)	(35,388)
Others (Note)	–	29,112	29,112
At 31 December 2019 and 1 January 2020	(22,456)	(171,640)	(194,096)
Charge for the year	(55,347)	(11,629)	(66,976)
Lease matured	42,258	–	42,258
At 31 December 2020	(35,545)	(183,269)	(218,814)
Net book value			
At 31 December 2020	55,531	447,684	503,215
At 31 December 2019	23,922	431,832	455,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

15 RIGHT-OF-USE ASSETS (CONTINUED)

Note: As explained in note 14, certain lease prepayments were reclassified as other long-term assets during the year of 2019.

The remaining lease terms of Group's land use rights ranged from 22 to 49 years (31 December 2019: 23 to 40 years).

The analysis of expense items in relation to leases recognized in profit or loss is as follows:

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets by class of underlying asset:		
– Properties leased for own use	55,347	22,456
– Land use rights	11,629	12,932
	66,976	35,388
Interest on lease liabilities (<i>Note 6</i>)	3,144	1,403
Expense relating to short-term leases, other leases with remaining lease term ending on or before 31 December 2019 and leases of low-value assets	21,089	23,693

During the year, additions to right-of-use assets were RMB114,437,000. This amount included the purchase of land use right of RMB27,481,000, and the remainder primarily related to the capitalized lease payments payable under new tenancy agreements.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in note 28(b) and note 34, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

16 MINING RIGHTS

	2020 RMB'000	2019 RMB'000
Cost		
At 1 January and 31 December	768,140	768,140
Accumulated amortization		
At 1 January	(255,027)	(221,964)
Charge for the year	(33,568)	(33,063)
At 31 December	(288,595)	(255,027)
Net book value		
At 31 December	479,545	513,113

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

17 INTANGIBLE ASSETS

	Software and others	
	2020	2019
	RMB'000	RMB'000
Cost		
At 1 January	—	—
Additions	20,177	—
At 31 December	20,177	—
Accumulated amortization and impairment		
At 1 January	—	—
Charge for the year	(2,838)	—
Impairment loss	(110)	—
At 31 December	(2,948)	—
Net book value		
At 31 December	17,229	—

The amortization change for the year is included in “administrative expenses” in the consolidated statements of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

18 GOODWILL

	2020 RMB'000	2019 RMB'000
Cost		
At 1 January	850,429	843,442
Exchange adjustments	(19,322)	6,987
Carrying amount		
At 31 December	831,107	850,429

Impairment testing on goodwill

For the purposes of impairment testing, goodwill has been allocated to the CGUs of the related segments as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Basic fertilizers	181,580	193,274
Distribution	85,449	90,952
Production		
– Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong")	531,074	531,074
– Others	33,004	35,129
	831,107	850,429

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations by estimating the future cash flows expected from these CGUs. The key assumptions for the value in use calculations are those regarding the discount rates, including estimated selling prices and selling quantities used in the cash flow forecasts. Cash flow forecasts are based on past practices and expectations of future changes in the market. The directors of the Company estimate pre-tax discount rates that reflect current market assessment of the time value of money and the risks specific relating to the CGUs. Cash flow forecasts of each CGU are derived from financial budgets of 2021 approved by the directors of the Company. The growth rates for the first 3 years from 2021 are based on the relevant CGUs past performance and management's expectation for the market development and for the following years are based on steady growth rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

18 GOODWILL (CONTINUED)

The key assumptions used in the value in use calculation for related CGUs include:

	Basic fertilizers and Distribution 2020	Production 2020
Pre-tax discount rate	9.8%	12.8%
Steady growth rate for the following years	3.0%	3.0%
	Basic fertilizers and Distribution 2019	Production 2019
Pre-tax discount rate	9.4%	12.9%
Steady growth rate for the following years	3.0%	3.0%

The value in use calculated is higher than the carrying amount for each CGU, accordingly, no impairment of goodwill was recognized for the year ended 31 December 2020.

19 INTERESTS IN ASSOCIATES

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Unlisted shares, at cost	473,995	384,094
Share of profits, net of dividends	145,050	148,786
	619,045	532,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

19 INTERESTS IN ASSOCIATES (CONTINUED)

All of the associates are accounted for using the equity method in the consolidated financial statements. The follow list contains only the particulars of major associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of entities	Form of business structure	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activities
				2020	2019	
Guizhou Xinxin Industrial Holdings Group Co., Ltd. ("Xinxin Group") 貴州鑫新實業控股集團有限責任公司	Incorporated	The PRC	RMB20,000,000	24%	24%	Production and sales of phosphate rock
Guizhou Xinxin Coal Chemical Co., Ltd. 貴州鑫新煤化工有限責任公司	Incorporated	The PRC	RMB20,000,000	24%	24%	Production and sales of coal
Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") 陽煤平原化工有限公司	Incorporated	The PRC	RMB560,296,500	36.75%	36.75%	Production and sales of fertilizers
Beijing Aerospace Hengfeng Technology Corp., Ltd. 北京航天恒豐科技股份有限公司	Incorporated	The PRC	RMB89,387,137	20%	–	Production and sales of fertilizers

The directors of the Company are of the opinion that no associates are individually material to the Group. Aggregate information of associates that are not individually material are listed below:

	2020 RMB'000	2019 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	619,045	532,880
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operation	40,020	20,361
Total comprehensive income	40,020	20,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

20 INTERESTS IN JOINT VENTURES

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Unlisted shares, at cost	374,330	374,330
Share of profits, net of dividends	20,288	(19,502)
	394,618	354,828

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. The following list contains only the particulars of major joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

Name of entites	Form of business structure	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activities
				2020	2019	
Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") 雲南三環中化化肥有限公司	Incorporated	The PRC	RMB800,000,000	40%	40%	Sales and manufacturing of fertilizers
Gansu Wengfu Chemical Co., Ltd. ("Gansu Wengfu") 甘肅甕福化工有限責任公司	Incorporated	The PRC	RMB245,650,000	30%	30%	Sales and manufacturing of fertilizers

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

20 INTERESTS IN JOINT VENTURES (CONTINUED)

The directors of the Company are of the opinion that no joint ventures are individually material to the Group. Aggregate information of joint ventures that are not individually material are listed below:

	2020 RMB'000	2019 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	394,618	354,828
Aggregate amounts of the Group's share of those joint ventures'		
Profit/(loss) from continuing operation	39,790	(290)
Total comprehensive income	39,790	(290)

21 OTHER EQUITY SECURITIES

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Equity securities designated at FVOCI (non-recycling)		
– Listed equity securities	104,990	107,281
– Unlisted equity securities	207,296	283,289
	312,286	390,570

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

22 OTHER LONG-TERM ASSETS

	Note	As at 31 December	
		2020 RMB'000	2019 RMB'000
Activators		20,733	23,279
Relocation for Sinochem Fuling	14	722,253	591,488
		742,986	614,767

23 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Fertilizer merchandise and finished goods	4,933,771	4,728,319
Raw materials	283,407	538,507
Work in progress	55,772	59,388
Consumables	50,117	49,006
	5,323,067	5,375,220

(b) The analysis of the amount of inventories recognized as an expense and included in profit or loss is as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Carrying amount of inventories sold	19,393,757	20,865,294
Write-down of inventories	21,800	8,559
	19,415,557	20,873,853

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

24 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	41,066	39,289
Less: loss allowance (Note (b))	(3,047)	(2,693)
	38,019	36,596
Bills receivable	544,750	374,385
Less: loss allowance (Note (b))	(11,050)	(5,300)
	533,700	369,085
Total trade and bills receivables, net of loss allowance	571,719	405,681

As at 31 December 2020, the bills receivable that the Group has endorsed or discounted and de-recognized but not yet matured amounted to RMB426,685,000 (2019: RMB1,741,731,000).

(a) Aging analysis of trade and bills receivables

The Group allows a credit period of 0-90 days to its trade customers. As at the end of the reporting period, the aging analysis of trade and bills receivables net of allowance for doubtful debts presented based on the invoice date is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 3 months	283,554	225,025
More than 3 months but within 6 months	265,122	98,118
More than 6 months but within 12 months	14,978	69,558
Over 12 months	8,065	12,980
	571,719	405,681

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

24 TRADE AND BILLS RECEIVABLES (CONTINUED)

(b) Loss allowance of trade and bills receivables

The movement in the loss allowance in respect of trade and bills receivables during the year is as follows:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	7,993	2,674
Impairment recognized	6,391	5,319
Write-off of uncollectible receivables	(287)	–
Balance at 31 December	14,097	7,993

25 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Other receivables	218,454	214,389
Prepayments for inventories	1,499,775	1,355,727
Other prepayments	28,636	19,415
Deductible input VAT	265,090	359,831
Less: loss allowance (Note)	(66,201)	(48,402)
Other receivables and prepayments	1,945,754	1,900,960

Note: The movement in the loss allowance in respect of other receivables and prepayment during the year is as follows:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	48,402	51,367
Impairment recognized/(reversal of impairment)	18,541	(1,518)
Write-off of uncollectible receivables	(742)	(1,447)
Balance at 31 December	66,201	48,402

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

26 LOANS TO RELATED PARTIES

	Note	As at 31 December	
		2020 RMB'000	2019 RMB'000
Sinochem Agriculture Holdings Limited ("Sinochem Agriculture")	(i)	950,000	250,000
Yangmei Pingyuan	(ii)	670,000	670,000
Total loans to related parties		1,620,000	920,000
Less: amount due within one year		670,000	920,000
		950,000	—

Notes:

- (i) The entrusted loans lent to Sinochem Agriculture, a subsidiary of ChemChina, through Sinochem Finance Co., Ltd. ("Sinochem Finance") of RMB950,000,000 are guaranteed by Sinochem Group, bear fixed interest rate of 3.85% (2019: 4.2%) per annum and are repayable within two years.
- (ii) The entrusted loans lent to Yangmei Pingyuan through Sinochem Finance are unsecured, bear annual interest rate of 6.1% (2019: 6.1%) per annum and are repayable within one year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

27 OTHER FINANCIAL ASSETS

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Financial assets measured at FVPL		
– structured deposits	–	400,000
– nitrogen fertilizer futures	4,657	–
	4,657	400,000

28 CASH AND BANK BALANCES

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Cash in hand	–	12
Cash at bank	762,548	1,333,986
Cash and cash equivalents in the consolidated statement of financial position and cash flows	762,548	1,333,998

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

28 CASH AND BANK BALANCES (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities

	Bank loans RMB'000 (Note 32)	Short-term commercial paper RMB'000 (Note 33)	Lease liabilities RMB'000 (Note 34)	Interest payable RMB'000	Total RMB'000
At 1 January 2020	–	2,400,000	24,351	30,744	2,455,095
Changes from financing cash flows:					
Proceeds from bank and other loans	2,401,851	–	–	–	2,401,851
Repayment of bank and other loans	(1,687,554)	–	–	–	(1,687,554)
Proceeds from short-term commercial paper	–	2,800,000	–	–	2,800,000
Repayment of short-term commercial paper	–	(4,200,000)	–	–	(4,200,000)
Capital element of lease rentals paid	–	–	(58,380)	–	(58,380)
Interest element of lease rentals paid	–	–	(3,144)	–	(3,144)
Other Interest paid	–	–	–	(87,214)	(87,214)
Total changes from financing cash flows	714,297	(1,400,000)	(61,524)	(87,214)	(834,441)
Other changes:					
Increase in lease liabilities from entering into new leases during the year	–	–	86,956	–	86,956
Interest expenses (Note 6)	–	–	3,144	71,718	74,862
At 31 December 2020	714,297	1,000,000	52,927	15,248	1,782,472

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

28 CASH AND BANK BALANCES (CONTINUED)

(b) Reconciliation of liabilities arising from financing activities (continued)

	Bank loans <i>RMB'000</i> <i>(Note 32)</i>	Bonds <i>RMB'000</i>	Short-term commercial paper <i>RMB'000</i> <i>(Note 33)</i>	Lease liabilities <i>RMB'000</i> <i>(Note 34)</i>	Interest payable <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2019	57,500	3,027,885	–	42,258	27,184	3,154,827
Changes from financing cash flows:						
Proceeds from bank and other loans	5,324,662	–	–	–	–	5,324,662
Repayment of bank and other loans	(5,382,162)	–	–	–	–	(5,382,162)
Repayment of bonds	–	(3,027,885)	–	–	–	(3,027,885)
Proceeds from short-term commercial paper	–	–	3,400,000	–	–	3,400,000
Repayment of short-term commercial paper	–	–	(1,000,000)	–	–	(1,000,000)
Capital element of lease rentals paid	–	–	–	(22,027)	–	(22,027)
Interest element of lease rentals paid	–	–	–	(1,403)	–	(1,403)
Other Interest paid	–	–	–	–	(183,837)	(183,837)
Total changes from financing cash flows	(57,500)	(3,027,885)	2,400,000	(23,430)	(183,837)	(892,652)
Other changes:						
Increase in lease liabilities from entering into new leases during the year	–	–	–	4,120	–	4,120
Interest expenses <i>(Note 6)</i>	–	–	–	1,403	187,397	188,800
At 31 December 2019	–	–	2,400,000	24,351	30,744	2,455,095

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

28 CASH AND BANK BALANCES (CONTINUED)

(c) Total cash outflow for leases

Amounts included in the consolidated statement of cash flows for leases comprise the following:

	2020 RMB'000	2019 RMB'000
Within operating cash flows	21,089	23,693
Within investing cash flows	27,481	41,168
Within financing cash flows	61,524	23,430
	110,094	88,291

These amounts relate to the following:

	2020 RMB'000	2019 RMB'000
Lease rentals paid	82,613	47,123
Purchase of land use rights	27,481	41,168
	110,094	88,291

29 TRADE AND BILLS PAYABLES

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Trade payables	1,460,142	1,367,060
Bills payable	965,537	2,018,713
Trade and bills payables	2,425,679	3,385,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

29 TRADE AND BILLS PAYABLES (CONTINUED)

As at 31 December 2020, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Within 3 months	1,661,239	2,934,579
More than 3 months but within 6 months	446,285	353,709
More than 6 months but within 12 months	285,494	34,576
Over 12 months	32,661	62,909
	2,425,679	3,385,773

30 CONTRACT LIABILITIES

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Contract liabilities		
Sales of goods		
– Amounts due to customer for advance received	3,680,473	2,263,578

Movements in contract liabilities:

	2020 RMB'000	2019 RMB'000
Balance at 1 January	2,263,578	2,937,545
Decrease in contract liabilities as a result of recognizing revenue during the year that was included in the contract liabilities at the beginning of the period	(2,237,585)	(2,797,978)
Increase in contract liabilities as a result of receiving forward sales deposits as at the year end	3,654,480	2,124,011
Balance at 31 December	3,680,473	2,263,578

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

31 OTHER PAYABLES

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Payroll payables	59,419	51,017
Interest payables	15,248	30,744
Dividends payable	24,064	25,437
Payables for purchase of property, plant and equipment and land use rights	107,618	144,715
Other taxes payables	91,047	46,499
Others	307,181	380,904
Financail liabilities measured at amortized cost	604,577	679,316
Fair value of forward foreign exchange contracts (<i>Note 39(f)</i>)	52,643	–
	657,220	679,316

32 BANK LOANS

(a) The analysis of the carrying amount of bank loans is as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Bank loans, unsecured	714,297	–

As at 31 December 2020, all of the bank loans are fixed-rate borrowings carried at amortized cost and repayable within one year. The effective interest rates of borrowings ranged from 3.55% to 3.85%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

32 BANK LOANS (CONTINUED)

(b) Unutilized banking facilities

As at the end of the reporting period, the Group has the following unutilized banking facilities:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Expiring within 1 year	14,624,237	17,181,803
Expiring beyond 1 year	9,109,593	5,226,633
	23,733,830	22,408,436

At 31 December 2020, certain property, plant and equipment and lease prepayment with carrying values of approximately RMB3,911,000 (2019: RMB4,582,000) were pledged to secure banking facilities granted to the Group.

33 SHORT-TERM COMMERCIAL PAPER

Short-term commercial paper as at 31 December 2020 represents short-term commercial paper which was issued by a PRC subsidiary of the Group with principal of RMB1 billion on 21 April 2020, bears an interest rate of 2.20% per annum and was fully settled on 15 January 2021.

34 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Within 1 year	40,524	23,308
After 1 year but within 2 years	9,134	991
After 2 years but within 5 years	3,269	52
	12,403	1,043
	52,927	24,351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

35 DEFERRED TAX ASSETS/LIABILITIES

The following is the analysis of the deferred tax balances for financial reporting purpose:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Deferred tax assets	89,329	68,914
Deferred tax liabilities	(171,622)	(183,591)
	(82,293)	(114,677)

(a) Deferred tax assets and liabilities recognized:

Deferred tax assets and liabilities recognized and movements thereon during the current and prior years are as follows:

	Fair value adjustment on business combination RMB'000	Revaluation of other equity securities RMB'000	Unrealized profits in inventories RMB'000	Impairments RMB'000	Tax losses RMB'000	Other RMB'000	Total RMB'000
At 1 January 2019	(195,560)	(19,762)	2,041	11,124	40,381	3,776	(158,000)
Credited/(charged) to profit or loss for the year	11,969	–	(1,094)	(520)	7,925	(776)	17,504
Credited to reserves for the year	–	25,819	–	–	–	–	25,819
At 31 December 2019 and 1 January 2020	(183,591)	6,057	947	10,604	48,306	3,000	(114,677)
Credited/(charged) to profit or loss for the year	11,969	–	(173)	345	627	951	13,719
Credited to reserves for the year	–	18,665	–	–	–	–	18,665
At 31 December 2020	(171,622)	24,722	774	10,949	48,933	3,951	(82,293)

By reference to financial budgets, the management of the Group believes that there will be sufficient future taxable profits or taxable temporary differences available in the future to utilize the deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

35 DEFERRED TAX ASSETS/LIABILITIES (CONTINUED)

(b) Deferred tax assets not recognized

No deferred tax assets were recognized on the tax losses of approximately RMB6,833,144,000 as of 31 December 2020 (2019: RMB7,250,124,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable. Unrecognized tax losses of RMB41,014,000 has expired during 2020.

The unrecognized tax losses will expire in the following years:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
2020	—	77,924
2021	3,850,899	4,213,489
2022	2,291,112	2,291,112
2023	37,837	37,837
2024	—	—
2025	6,250	—
No expiry	647,046	629,762
	6,833,144	7,250,124

(c) Deferred tax liabilities not recognized

Under the tax laws of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to overseas investors from 1 January 2008 onwards. As the Company controls the dividend policy of its PRC subsidiaries, it has the ability to control the timing of the reversal of temporary differences associated with the investment in subsidiaries. Furthermore, the Company has determined that those profits earned by its PRC subsidiaries will not be distributed to overseas investors in the foreseeable future. As such, deferred taxation has not been provided for in respect of temporary differences attributable to accumulated profits of PRC subsidiaries of RMB535,230,000 at 31 December 2020 (2019: RMB412,620,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

36 ISSUED EQUITY

(a) The issued equity of the Group:

	2020 RMB'000	2019 RMB'000
At 1 January/At 31 December		
Issued shares of HK\$0.10 each and share premium	5,887,384	5,887,384

The amount of issued equity of the Group as at 31 December 2020 and 2019 includes share capital and share premium in the consolidated statement of financial position.

(b) The details of share capital of the Company are as follows:

	2020 Number of shares '000	2020 Nominal value HK\$'000	2020 Equivalent to RMB'000	2019 Number of shares '000	2019 Nominal value HK\$'000	2019 Equivalent to RMB'000
Authorized: Ordinary shares par value of HK\$0.10 each	80,000,000	8,000,000		80,000,000	8,000,000	
Issued and fully paid: At 1 January and at 31 December	7,024,456	702,446	691,750	7,024,456	702,446	691,750

	Number of shares	Nominal Value HK\$'000
Preference shares		
Authorized:		
Preference shares of HK\$1,000,000 each	316	316,000

No preference shares were issued at 31 December 2020 and 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

37 CAPITAL INJECTION TO A SUBSIDIARY

On 8 April 2020, Sinochem Fertilizer Company Limited ("Sinochem Fertilizer"), Chongqing Fuling State-owned Assets Management Group Co., Ltd. ("Fuling SAM") and Sinochem Fuling entered into an agreement, pursuant to which Sinochem Fertilizer agreed to convert a loan of RMB500,000,000 granted to Sinochem Fuling into an additional capital of Sinochem Fuling, and Fuling SAM agreed to inject cash of RMB150,000,000 into Sinochem Fuling. As a result of these transactions, the Group's interest in Sinochem Fuling increased from 60% to 73.78%.

	<i>RMB'000</i>
Carrying amount of non-controlling interests before capital injection	(111,009)
Carrying amount of non-controlling interests after capital injection	97,663
An increase in non-controlling interests of the Company	208,672

38 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from previous years.

The capital structure of the Group consists of net debt including borrowings, net of cash and cash equivalents and equity attributable to owners of the Company comprising issued equity, retained profits and other reserves.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are mainly banks and financial institutions for which the Group considers to have low credit risk.

Except for the financial guarantees given by the Group as set out in note 43, the Group does not provide any other guarantees which would expose the Group to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 43.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 0-90 days from the date of billing.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Credit risk (continued)

Trade receivables (continued)

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables:

	As at 31 December 2020		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
within 1 year	0.05%	35,704	(17)
more than 1 year but within 2 years	15.69%	1,452	(228)
more than 2 years but within 3 years	25.36%	—	—
more than 3 years	71.66%	3,910	(2,802)
		41,066	(3,047)

	As at 31 December 2019		
	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
within 1 year	0.04%	35,146	(15)
more than 1 year but within 2 years	14.63%	3	(1)
more than 2 years but within 3 years	23.65%	207	(49)
more than 3 years	66.82%	3,933	(2,628)
		39,289	(2,693)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of credit borrowings.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2020, the Group has available unutilized bank loan facilities of approximately RMB23,733,830,000 (2019: approximately RMB22,408,436,000). Details are set out in note 32(b).

The following table details the Group's remaining contractual maturity for its financial liabilities based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

The table includes both interest and principal cash flows based on the contractual undiscounted payments of the Group's financial liabilities at the end of the reporting period.

	2020				
	Contractual undiscounted cash outflow				Carrying amount <i>RMB'000</i>
	Within	More than	More than	Total	
	1 year or	1 year but	2 year but		
	on demand	less than	less than		
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	
Trade and bills payables	2,425,679	–	–	2,425,679	2,425,679
Other payables	657,220	–	–	657,220	657,220
Bank loans	738,151	–	–	738,151	714,297
Short-term commercial paper	1,000,904	–	–	1,000,904	1,000,000
Lease liabilities	42,723	9,740	3,631	56,094	52,927
	4,864,677	9,740	3,631	4,878,048	4,850,123

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) Liquidity risk (continued)

	2019				
	Contractual undiscounted cash outflow				
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 year but less than 5 years	Total	Carrying amount
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	3,385,773	–	–	3,385,773	3,385,773
Other payables	679,316	–	–	679,316	679,316
Short-term commercial paper	2,428,514	–	–	2,428,514	2,400,000
Lease liabilities	23,741	1,014	54	24,809	24,351
	6,517,344	1,014	54	6,518,412	6,489,440

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see notes 32, 33 and 34 for details of the borrowings). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

Sensitivity analysis

Since the Group has no variable-rate borrowings at the end of the reporting period, no sensitivity analysis about interest rates risk is prepared.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk

Several subsidiaries of the Group have foreign currency transactions, which expose the Group to currency risk. Since the monetary items denominated in foreign currencies are not significant, the Group considers the currency risk was insignificant. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

Monetary assets and monetary liabilities denominated in foreign currency including mainly cash and bank balances, trade payables, other payables and borrowings that are subject to currency risk at the end of the reporting period are as follows, differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded:

	Assets		Liabilities	
	2020 RMB'000	2019 RMB'000	2020 RMB'000	2019 RMB'000
US\$	95,523	77,942	387,039	542,524

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(d) Currency risk (continued)

Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2020			2019		
	Increase/ (decrease) in foreign exchange rates	Effect on results of the year and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on results of the year and retained profits RMB'000	Effect on other components of equity RMB'000
US\$	10%	(29,152)	–	10%	(46,458)	–
	(10%)	29,152	–	(10%)	46,458	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' results of year and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(e) Equity price risk

The Group is exposed to equity price changes arising from equity investments held for non-trading purpose.

The Group's listed investment is listed on the Stock Exchange of Hong Kong Limited. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk.

All of the Group's unquoted investments are held for long-term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

Sensitivity analysis

If the prices of the respective listed equity instruments increased/(decreased) of 10% (2019: 10%), the Group's other comprehensive income after tax and other components of consolidated equity would have increased/decreased by approximately RMB10,499,000 (2019: RMB10,728,000) as a result of the increase/decrease in fair value of equity securities. The sensitivity analysis has been determined based on the exposure to equity price risks at the end of the reporting period. The analysis is performed on the same basis for 2019.

(f) Fair value

(i) Financial assets and liabilities measured at fair value

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	Fair value at 31 December 2020 RMB'000	Fair value measurements as at 31 December 2020 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Listed equity securities	104,990	104,990	–	–
Unlisted equity securities	207,296	–	–	207,296
Other financial assets-nitrogen fertilizer futures	4,657	–	4,657	–
Bills receivable	30,233	–	–	30,233
Forward foreign exchange contracts	(52,643)	–	(52,643)	–
Total	294,533	104,990	(47,986)	237,529

	Fair value at 31 December 2019 RMB'000	Fair value measurements as at 31 December 2019 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Listed equity securities	107,281	107,281	–	–
Unlisted equity securities	283,289	–	–	283,289
Other financial assets-structured deposits	400,000	–	400,000	–
Bills receivable	369,085	–	–	369,085
Total	1,159,655	107,281	400,000	652,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value (continued)

(i) *Financial assets and liabilities measured at fair value (continued)*

During the years ended 31 December 2020 and 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which the occur.

Information about Level 2 fair value measurements

- The fair value of nitrogen fertilizer futures is estimated based on the difference between spot price and contract price.
- The fair value of forward foreign exchange contracts is determined with reference to the difference between the contractual forward price and the forward rate as of year end.
- The fair value of structured deposits is estimated based on the amount that the Group would receive at the end of the reporting period, taking into account current market interest rates of structured deposits with similar risk profile.

Information about Level 3 fair value measurements

- The valuation model of the fair value of unlisted equity securities is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of the non-marketability of the equity securities and price to book value of the investee.
- The fair value of bills receivable is measured using discounted cash flow method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

39 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value (continued)

(i) Financial assets and liabilities measured at fair value (continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2020 RMB'000	2019 RMB'000
Unlisted equity securities:		
At 1 January	283,289	386,566
Changes in fair value during the year	(74,661)	(103,277)
Disposal	(1,332)	–
At 31 December	207,296	283,289
Other financial assets – wealth management products		
At 1 January	–	197,725
Proceeds from sale	–	(197,725)
At 31 December	–	–
Bills receivable		
At 1 January	369,085	490,648
Net decrease	(338,852)	(121,563)
At 31 December	30,233	369,085

(ii) Fair values of financial assets and liabilities carried at other than fair value

The directors of the Company consider there is no significant difference between the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements and their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

40 CONTINGENT LIABILITIES

At 31 December 2020 and 2019, the Group had no material contingent liabilities.

41 COMMITMENTS

Capital commitment

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Contracted but not provided for – Property, plant and equipment	1,108,545	278,169
Authorized but not contracted for – Property, plant and equipment	1,120,537	1,425,975
	2,229,082	1,704,144

42 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Group during the year ended 31 December 2020 and 2019 were as follows:

Ultimate holding company before 17 June 2020

Sinochem Group (Note)
(中國中化集團有限公司)

Ultimate holding company from 17 June 2020

ChemChina (Note)
(中國化工集團有限公司)

Indirect holding company before 17 June 2020

Sinochem Corporation
(中國中化股份有限公司)

Immediate holding company before 17 June 2020

Sinochem Hong Kong (Group) Co., Ltd. ("Sinochem Hong Kong")
(中化香港(集團)有限公司)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

Fellow subsidiaries

Sinochem (United Kingdom) Limited
(中化(英國)有限公司)

Beijing Chemsunny Property Co., Ltd. (fellow subsidiary before 17 June 2020)
(北京凱晨置業有限公司)

Sinochem Finance (fellow subsidiary before 17 June 2020)
(中化集團財務有限責任公司)

Henan Junhua Development Co., Ltd. (fellow subsidiary from 17 June 2020)
(河南駿化發展股份有限公司)

China Foreign Economy and Trade Trust Co., Ltd. (fellow subsidiary before 17 June 2020)
(中國對外經濟貿易信託有限公司)

Sinochem Agriculture
(中化現代農業有限公司)

China National Seed Group Co., Ltd.
(中國種子集團有限公司)

Andorra (Beijing) Agricultural Technology Co., Ltd. (fellow subsidiary from 17 June 2020)
(安道麥(北京)農業技術有限公司)

Syngenta (China) Investment Co., Ltd. (fellow subsidiary from 17 June 2020)
(先正達(中國)投資有限公司)

A subsidiary of a shareholder with significant influence over the Company

PCS Sales (USA) Inc.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

Associates

Xinxin Group

(貴州鑫新實業控股集團有限責任公司)

Yangmei Pingyuan

(陽煤平原化工有限公司)

Chongqing Fuling Zhongwang Agricultural Material Co., Ltd.

(重慶市涪陵區眾旺農資有限公司)

Joint ventures

Three Circles-Sinochem

(雲南三環中化化肥有限公司)

Gansu Wengfu

(甘肅甕福化工有限責任公司)

Associate of the then ultimate holding company

Qinghai Salt Lake Industry Co., Ltd.

(青海鹽湖工業股份有限公司)

Associate of the ultimate holding company

Jiangsu Yangnong Chemical Co., Ltd.

(江蘇揚農化工股份有限公司)

Sinochem International Crop Care Co., Ltd.

(中化作物保護品有限公司)

Note:

On 17 June 2020, the Company was informed by Sinochem Hong Kong that it has completed the transfer of 3,698,660,874 ordinary shares of the Company held by it to CNAC(HK). CNAC HK is a wholly-owned subsidiary of Syngenta Group Co., Ltd., which is in turn wholly owned by China National Agrochemical Co., Ltd. ("CNAC"). CNAC is a wholly-owned subsidiary of ChemChina.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) In addition to the transactions disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year:

	2020 RMB'000	2019 RMB'000
Sales of fertilizers to		
Joint ventures	85,993	224,422
Associates	4,316	5,780
An associate of the then ultimate holding company	—	86,077
An associate of the ultimate holding company	4,861	—
Fellow subsidiaries	478,277	417,523
	573,447	733,802
Purchases of fertilizers from		
The then ultimate holding company	23,732	58,558
Joint ventures	1,214,570	1,234,036
Associates	398	26,165
An associate of the then ultimate holding company	574,650	969,562
An associate of the ultimate holding company	50,482	—
A subsidiary of a shareholder with significant influence over the Company	565,244	699,645
Fellow subsidiaries	163,768	—
	2,592,844	2,987,966
Import service fee payable to a fellow subsidiary	15,857	15,872
Rental and management fee payable to		
The then immediate holding company	1,285	2,451
A fellow subsidiary	14,158	27,564
	15,443	30,015
Loans to related parties		
An associate	670,000	670,000
A fellow subsidiary	1,250,000	568,000
	1,920,000	1,238,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) In addition to the transactions disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year (continued):

	2020 RMB'000	2019 RMB'000
Repayments of loans to		
An associate	670,000	670,000
A fellow subsidiary	550,000	1,118,000
The then indirect holding company	–	500,000
	1,220,000	2,288,000
Interest income from related parties		
An associate	38,878	38,413
A fellow subsidiary	11,656	34,080
The then indirect holding company	–	1,283
	50,534	73,776
Loans from fellow subsidiaries	1,115,000	3,650,000
Repayments of loans from fellow subsidiaries	1,115,000	3,707,500
Interest expenses for loans from fellow subsidiaries and service fee	9,489	11,073
Proceeds received from sales of financial assets to a fellow subsidiary	–	197,725
Interests income of financial assets and deposits from fellow subsidiaries	2,083	13,711

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

- (b) As at the end of the reporting period, the Group had the following material balances with its related parties:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Trade receivables	272	1,369
Other receivables and prepayments	50,643	225,683
Trade and bills payables	149,172	1,499,325
Other payables	47,976	76,608
Contract liabilities	117,474	27,755
Loans to related parties	1,620,000	920,000
Time deposits	—	302,500
Cash and cash equivalents	—	646,912

(c) **Compensation of key management personnel**

Key management personnel are Company's directors and senior executives. Remuneration paid or payable to the directors was disclosed in note 10, and was determined by the Remuneration Committee according to the operating results of the Group, individual performance and relevant comparable market statistics. Remuneration paid or payable to senior executives is as follows:

	2020 RMB'000	2019 RMB'000
Salaries and other benefits	5,136	3,858
Performance related incentive payment	7,852	6,316
Retirement benefits scheme contribution	175	200
	13,163	10,374

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel (continued)

The emoluments of senior executives were within the following bands:

	2020 <i>Number of individuals</i>	2019 <i>Number of individuals</i>
Nil to HK\$1,000,000	1	–
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	3	1
HK\$3,000,001 to HK\$3,500,000	1	1
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	–	1
	6	4

(d) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by Chinese government (“government-related entities”). In addition, the Group itself is part of a larger group of companies under Sinochem Group (before 17 June 2020) and ChemChina (from 17 June 2020) which are controlled by Chinese government. Apart from the transactions with Sinochem Group (before 17 June 2020), ChemChina (from 17 June 2020) and fellow subsidiaries and other related parties as disclosed above, the Group also conducts business with other government-related entities. The directors of the Company consider those government-related entities are independent third parties so far as the Group’s business transactions with them are concerned.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

42 RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Transactions/balances with other state-controlled entities in the PRC (continued)

At the end of the reporting period, the Group had the following significant balances with other government-related entities in the PRC:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade and bills receivables	5,369	151
Other receivables and prepayments	633,452	574,464
Trade and bills payables	476,225	406,444
Other payables	168	3,582
Contract liabilities	198,867	125,149

During the year, the Group had the following significant transactions with other government-related entities as follows:

	2020	2019
	RMB'000	RMB'000
Sales of fertilizers	1,423,689	1,243,689
Purchases of fertilizers	5,241,516	4,694,381

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks that are government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Company are of the opinion that separate disclosure would not be meaningful.

Except for amounts and transactions disclosed above, the directors of the Company are of the opinion that transactions with other government-related entities are not significant to the Group's operations.

43 GUARANTEE

In 2019, Sinochem Fertilizer entered into a guarantee agreement, pursuant to which, Sinochem Fertilizer will provide a guarantee in favor of Shanxi Jincheng Anthracite Mining Group Co., Ltd. ("Jincheng Anthracite Mining") for loans and guarantee provided by Jincheng Anthracite Mining to Shanxi Jinmei Tianyuan Chemical Co., Ltd. ("Jinmei Tianyuan"). Sinochem Fertilizer holds 15.11% equity interest in Jinmei Tianyuan and designates it at FVOCI (non-recycling). According to the guarantee agreement, Sinochem Fertilizer pledged its 15.11% equity interest in Jinmei Tianyuan to Jincheng Anthracite Mining to secure the loans and guarantee granted and Sinochem Fertilizer's liabilities are to cap at the fair value of 15.11% equity interest in Jinmei Tianyuan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

44 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2020 and 2019:

Name of subsidiaries	Place of incorporation/ registration	Place of principal operation	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
				2020	2019	
Calorie Ltd.	Hong Kong	Hong Kong	34,000 shares	100%	100%	Investment holding
Sinochem Fertilizer <i>(Note a)</i> (中化化肥有限公司)	The PRC	The PRC	RMB10,600,000,000	100%	100%	Fertilizer trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	Hong Kong	15,000,000 shares	100%	100%	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務有限公司)	Macao	Macao	100,000 shares	100%	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Co., Ltd. <i>(Note c)</i> (綏芬河新凱源貿易有限公司)	The PRC	The PRC	RMB5,000,000	100%	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. <i>(Note c)</i> (福建中化智勝化肥有限公司)	The PRC	The PRC	RMB47,000,000	53.19%	53.19%	Sales and manufacturing of fertilizers
Sinochem Fuling <i>(Note c)</i> (中化重慶涪陵化工有限公司)	The PRC	The PRC	RMB1,058,000,000	73.78%	60%	Sales and manufacturing of fertilizers
Sinochem Yunlong <i>(Note c)</i> (中化雲龍有限公司)	The PRC	The PRC	RMB500,000,000	100%	100%	Sales and manufacturing of feeds stuff
Sinochem Yantai Crop Nutrition Co., Ltd. <i>(Note b)</i> (中化(煙台)作物營養有限公司)	The PRC	The PRC	US\$1,493,000	100%	100%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Co., Ltd. <i>(Note c)</i> (滿洲里凱明化肥有限公司)	The PRC	The PRC	RMB5,000,000	100%	100%	Fertilizer trading
Sinochem Jilin Changshan Chemical Co., Ltd. <i>(Note c)</i> (中化吉林長山化工有限公司)	The PRC	The PRC	RMB2,838,650,000	98.16%	98.16%	Sales and manufacturing of fertilizers
Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd. <i>(Note c)</i> (中化農業生態科技(湖北)有限公司)	The PRC	The PRC	RMB300,000,000	98%	98%	Sales and manufacturing of fertilizers

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

44 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/ registration	Place of principal operation	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
				2020	2019	
Sinochem Shandong Fertilizer Co., Ltd. <i>(Note c)</i> (中化山東肥業有限公司)	The PRC	The PRC	RMB100,000,000	51%	51%	Sales and manufacturing of fertilizers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd. <i>(Note c)</i> (中化肥美特農資連鎖有限公司)	The PRC	The PRC	RMB100,000,000	100%	100%	Sales of fertilizers
Sinochem Hainan Crop Science and Technology Co., Ltd. <i>(Note c)</i> (中化海南作物科技有限公司)	The PRC	The PRC	RMB200,000,000	100%	100%	Sales of fertilizers
Pingyuan County Xinglong Textile Co., Ltd. <i>(Note c)</i> (平原縣興龍紡織有限公司)	The PRC	The PRC	RMB15,000,000	75%	75%	Sales and manufacturing of textiles
Sinochem Agriculture(Xinjiang) Biotech Co., Ltd. <i>(Note c)</i> (中化農業(新疆)生物科技有限公司)	The PRC	The PRC	RMB150,000,000	100%	100%	Sales and manufacturing of fertilizers
Sinochem Agriculture(Linyi) R&D Centre Co., Ltd. <i>(Note c)</i> (中化農業(臨沂)研發中心有限公司)	The PRC	The PRC	RMB122,300,000	100%	100%	Development of agriculture products
Sinochem Fertilizer Singapore PTE. LTD.	Singapore	Singapore	6,605,000 shares	100%	100%	Sales of fertilizers

Note a: Foreign invested enterprise

Note b: Sino-foreign enterprise

Note c: Domestic company

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

The directors of the Company are of the opinion that none of its subsidiaries has non-controlling interests material to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

45 RETIREMENT BENEFITS SCHEME CONTRIBUTION

According to the relevant laws and regulations in the Mainland China, Hong Kong and Macao, the Group's certain subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The contribution to fund the retirement benefits of the employees are calculated based on certain percentage of the average employee salary as agreed by local municipal government to the scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contribution under the schemes.

46 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Non-current assets		
Investments in subsidiaries	4,295,553	4,572,192
Amounts due from subsidiaries	1,798,096	1,920,761
Right-of-use assets	196	709
Other non-current assets	626,108	840,537
	6,719,953	7,334,199
Current assets		
Cash and bank balances	1,306	971
Current liabilities	14,690	11,661
Net current liabilities	(13,384)	(10,690)
Total assets less current liabilities	6,706,569	7,323,509
Non-current liabilities	—	205
NET ASSETS	6,706,569	7,323,304
CAPITAL AND RESERVE		
Issued equity	5,887,384	5,887,384
Contributed surplus (Note(a))	1,582,189	1,770,101
Exchange reserve (Note(b))	(765,821)	(336,458)
Retained earnings	2,817	2,277
TOTAL EQUITY	6,706,569	7,323,304

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

46 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Notes:

- (a) Contributed surplus

The Company declared and paid dividend of HK\$206,519,000 (equivalent to approximately RMB187,912,000) to equity shareholders of the Group out of the contributed surplus during the year ended 31 December 2020.

- (b) Exchange reserve

The decrease in the exchange reserve of RMB429,363,000 was due to exchange differences on translation of the Company's financial statements.

47 IMPACTS OF COVID-19 PANDEMIC

The Covid-19 Pandemic since early 2020 has brought about additional uncertainties in the Group's operating environment and may impact the Group's operations and financial position.

The Group has been closely monitoring the impact from the Covid-19 Pandemic on the Group's businesses and has commenced to put in place various contingency measures. These contingency measures include but not limited to improving the production rate and increasing the import to ensure the supply of the spring cultivation; using the logistics services offered by its e-commerce platform to enhance the efficiency in organising logistics vehicles and reduce transportation cost; economizing social insurance expenditure by government's preferential policies. The Group will keep the contingency measures under review as the Covid-19 Pandemic situation evolves.

48 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2020

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and a new standard, HKFRS 17, *Insurance contracts*, which are not yet effective for the year ended 31 December 2020 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3, <i>Reference to the Conceptual Framework</i>	1 January 2022
Amendments to HKAS 16, <i>Property, Plant and Equipment: Proceeds before Intended Use</i>	1 January 2022
Amendments to HKAS 37, <i>Onerous Contracts – Cost of Fulfilling a Contract</i>	1 January 2022
Annual Improvements to HKFRSs 2018-2020 Cycle	1 January 2022

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Revenue	21,380,740	22,950,942	22,996,328	17,643,812	14,959,092
Profit/(loss) before tax	671,742	650,325	451,132	(2,269,946)	(4,817,805)
Income tax	(18,317)	(5,993)	37,833	(10,938)	(4,621)
Profit/(loss) for the year	653,425	644,332	488,965	(2,280,884)	(4,822,426)
Profit/(loss) attributable to					
– Owners of the Company	644,074	615,767	460,486	(2,207,504)	(4,635,885)
– Non-controlling interests	9,351	28,565	28,479	(73,380)	(186,541)
	653,425	644,332	488,965	(2,280,884)	(4,822,426)

	At 31 December				
	2020 RMB'000	2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
Total assets	17,109,032	16,873,775	17,607,429	22,317,633	22,865,093
Total liabilities	(8,942,481)	(9,172,375)	(10,366,450)	(15,690,521)	(14,595,520)
Net assets	8,166,551	7,701,400	7,240,979	6,627,112	8,269,573

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This annual report is printed on environmental friendly paper