中化化肥控股有限公司

SINOFERT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 297

NURTURING CHINA'S AGRICULTURE SECTOR
與中國現代農業共同成長

ANNUAL REPORT

2006

SINOFERT HOLDINGS LIMITED

ANNUAL REPORT 2006

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Company Profile and Corporate Information

Company Profile

Sinofert Holdings Limited (the "Company", which succeeded Sinochem Hong Kong Holdings Limited in December 2006) successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries (collectively the "Fertilizer Group") on 27 July 2005. Thereafter the Company and its subsidiaries (collectively the "Group") has become the first company in the Chinese fertilizer industry ever listed in Hong Kong. The Group is now a comprehensive fertilizer enterprise centering on distribution services and vertically integrating the upstream, midstream and downstream of the industry chain.

Major businesses of the Company and its subsidiaries (the "Group") include the production, import, export, distribution, wholesale and retail of fertilizer raw materials and products, as well as research and development and services in the field of fertilizer-related business and products.

According to the turnover of 2006, the Group can be rated as:

- The largest fertilizer distributor in China,
- The major supplier of imported fertilizers in China, and
- A major phosphate and compound fertilizers producer in China.

The Group's competitive strengths are mainly reflected in:

- Its business model centering on distribution services and integrating production, supply and sales for synergic development,
- The largest self-owned and self-run fertilizer distribution and sales network in China,
- Its abilities to produce and market the most complete varieties of fertilizer products, including nitrogen, phosphate, potash and compound fertilizers to the customers,
- Its strategic alliances with major international suppliers for the exclusive distribution and sales of their products in China, and
- Its complete agrichemical services system directly reaching the farmers.

Mission of the Group: "Basing ourselves in China to deploy fertilizer resources from among the global markets to serve the needs of the country's food security and agricultural production". The Group constantly aspires to achieve sustained, stable and rapid growth, to deliver value and returns to the shareholders, and to be committed to social responsibilities.

The ultimate controlling shareholder of the Company is Sinochem Corporation, which currently holds 53.53% of the issued ordinary shares of the Company through its wholly-owned subsidiary, Sinochem Hong Kong (Group) Company Limited ("Sinochem HK"). Sinochem Corporation is one of China's earliest qualifiers of Fortune Global 500 and has been selected for the 16th times, ranking the 304th in 2006. The second largest shareholder of the Company is Potash Corporation of Saskatchewan Inc. ("PotashCorp"), which is the largest potash producer in the world, and currently holds 20% of the issued ordinary shares of the Company. The remaining 26.47% of the issued ordinary shares of the Company are held by the public.

Company Profile and Corporate Information

Corporate Information

Non-Executive Directors

Mr. LIU De Shu *(Chairman)*
Mr. SONG Yu Qing *(Deputy Chairman)*

Executive Directors

Mr. DU Ke Ping *(Chief Executive Officer)*
Mr. Harry YANG (appointed on 6 March 2006)

Non-Executive Directors

Dr. CHEN Guo Gang
Dr. Stephen Francis DOWDLE
Mr. Wade FETZER III (appointed on 27 March 2006)

Independent Non-Executive Directors

Mr. KO Ming Tung, Edward
Dr. LI Ka Cheung, Eric
Dr. TANG Tin Sek

Audit Committee

Dr. LI Ka Cheung, Eric *(Chairman)*
Mr. KO Ming Tung, Edward
Dr. Tang Tin Sek

Remuneration Committee

Dr. TANG Tin Sek *(Chairman)*
Mr. KO Ming Tung, Edward
Dr. LI Ka Cheung, Eric
Dr. Stephen Francis DOWDLE
Ms. CHEN Yi Qing

Nomination Committee

Mr. KO Ming Tung, Edward *(Chairman)*
Dr. LI Ka Cheung, Eric
Dr. TANG Tin Sek
Dr. Stephen Francis DOWDLE

Chief Financial Officer

Mr. ZHANG Bao Hong

Qualified Accountant

Ms. TSE Yin Hung, Bonnie

Company Secretary

Mr. Navin AGGARWAL, Solicitor

Legal Advisers

Allen & Overy
9th Floor, Three Exchange Square
Central
Hong Kong

Kirkpatrick & Lockhart Preston Gates Ellis LLP
35th Floor
Two International Finance Centre
8 Finance Street
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Hong Kong

Auditors

Deloitte Touche Tohmatsu
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Hong Kong

Company Profile and Corporate Information

Investor Relations

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Wanchai, Hong Kong

Company Website:
www.sinofert.com.hk

Stock Code

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Principal Office

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Wanchai, Hong Kong

Registered Office

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2 Church Street
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Bermuda

Share Registrar and Transfer Office

Hong Kong
Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Bermuda
The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Principal Bankers

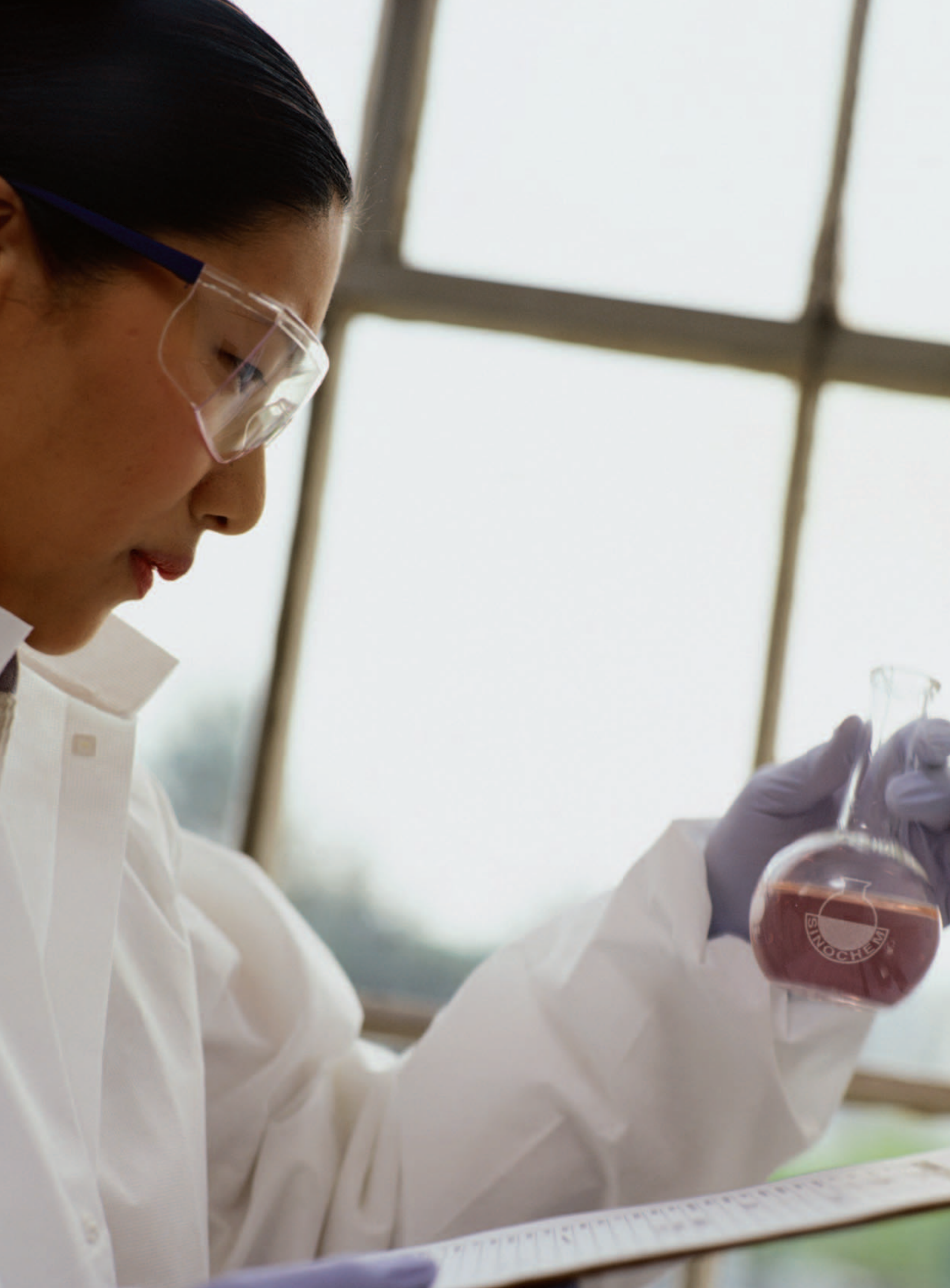
ING Bank
Bank of Tokyo-Mitsubishi
ABN AMRO Bank
Bank of China
Bank of Communications

Key Financial Data

(In HK$'000 except sales volume, EPS)

	2006	2005
Sales volume *(in 10,000 ton)*	**1,257**	1,117
Turnover	**21,126,571**	19,248,665
Gross profit	**1,707,267**	1,542,793
Profit before taxation	**1,003,973**	929,957
Profit attributable to equity shareholders of the Company	**896,246**	779,421
EPS *(HK cents per share)*	**15.43**	14.49
Return on Equity	**20.61%**	22.43%
Debt to Equity ratio *(Note 1)*	**37.03%**	34.40%

Note 1: Debt to Equity ratio = interest-bearing debt/total equity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以质量求生存 以技术求发展


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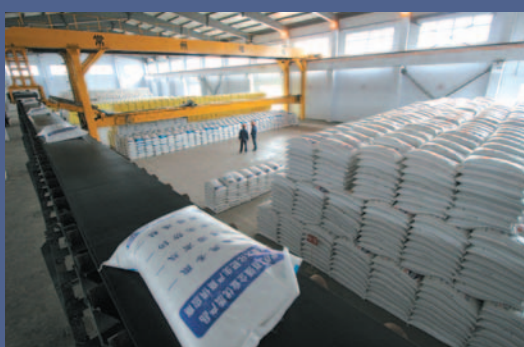

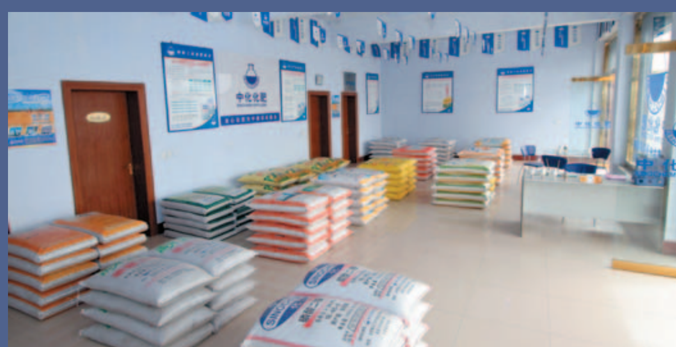

Chairman's Statement

Dear shareholders:

I am pleased to present to you the results of the Group for the twelve months ended 31 December 2006 for your review, and also welcome all friends from various circles who have interest in the Company to read and study the report.

For the twelve months ended 31 December 2006, the Group realized a sales volume of 12.57 million tons, up by 13% over the corresponding period of 2005; turnover reached HK$21.127 billion, up by 10% over the corresponding period of 2005; net income was HK$896 million, up by 15% over the corresponding period of 2005; and the earnings per share (EPS) was 15.43 HK cents, up by 6% over the corresponding period of 2005. This represents a record high in the history of the Group's annual performance.

Such remarkable results are attributable to the increasingly greater efforts of the Chinese government to support the agricultural sector and the farmers, which has created good opportunities for the growth of the Chinese fertilizer industry and the Group as well; and on the other hand, they are indivisible from the hard work of all the staff and members of the Group in their unswervingly carrying out the corporate strategy and overcoming various difficulties under the leadership of the management. The 2006 annual potash contract negotiations[note] with international suppliers were not concluded until late July. As a result, the import of sea-borne potash fertilizers to China was suspended for the first eight months of the year, which had caused a fall in the Group's potash sales volume. Another adversity was the sharp fall of Chinese nitrogen market prices, with unprecedented fluctuations, seen in July-September 2006, causing significant pressures on the operations of the Company. The Group adopted a number of important measures to minimize these adverse effects, including fully utilizing the potash inventories and expanding the domestic potash sales volume so as to maintain the profitability and market position of the Group's potash business. In addition, the sourcing of nitrogen fertilizer was expanded with increased capital input, and the business volume of nitrogen fertilizers doubled. The Group's upstream production capacity also increased by 0.3 million ton per annum, making the total capacity to 3.03 million ton. Moreover, the building of the downstream distribution network also witnessed continued progress with 312 distribution centers newly added, bringing the total number to 1,375. Efforts were also made to improve services to the farmers, including 3,300 workshops and events held in the rural areas or on site in the field for public welfare to teach the farmers on balanced fertilization, which has promoted fertilizer sales and the brand value of the Group. All the above measures jointly contributed to the growth in the Company's annual results.

In consideration of the financial status, cash flow and the prospects for sustained business growth of the Company, the Board of Directors recommends a dividend payout of 2.31 HK cents per share for the financial year ended 31 December 2006. This is 15% more than that of 2005.

Working to maximize shareholders' value, the Board of Directors has constantly improved the level of corporate governance and endeavored to bring into place a highly effective, standardized and rational corporate governance mechanism for scientific decision making. In compliance with the provisions set out in Appendix 14 to the Code on Corporate Governance Practices, the Company held four regular meetings of the Board of Directors, at which the annual report, interim report, dividend policy, corporate development strategy and other issues were deliberated and approved. Meanwhile, through irregular meetings, the Board of Directors also examined other important matters such as strategic investments and connected transactions. The Audit Committee, the Remuneration Committee and the Nomination Committee have also exercised their rights and fulfilled their obligations as entrusted by the Board of Directors, in their respective work of enhancing internal control, optimizing remuneration and incentives and perfecting the governance structure of the Company. In second half 2006, a specialized agency appointed by the Audit Committee conducted a systematic evaluation and optimization of the Company's financial monitoring, internal control and risk management procedures.

In 2006 the Board of Directors of the Company witnessed some changes in its component members as per the listing rules and the constitution of the Company. Two new, yet experienced directors were appointed, three directors were re-elected following their previous tenures of service, while one director resigned. Hereby I would like to, on behalf of the Board, express my heartfelt appreciation and gratitude to all the directors for their contributions to the Company during their tenures and/or in the past year.

Looking into the future, we believe that the Group is embraced by an excellent opportunity for strategic development. The world's population keeps rising, bio-energy is booming, and both have accelerated the demand for grains. However, global grain output in 2006 decreased, grain inventories fell, and both have further intensified the world's grain supply-demand situation. China, being the largest grain producer and consumer in the world, is mandated to implement the strictest arable land protection system in order to ensure food security for her population of 1.3 billion. In this connection, the Chinese government will continuously adopt preferential policies to support the agricultural sector, which will help to steadily increase the farmers' income and boost their enthusiasm in farming. It is expected that this will be conducive to create a positive market environment for the growth of fertilizers and other agricultural inputs. Moreover, the Group has already built prominent competitive strengths and a powerful position in the Chinese fertilizer market. Hence, we have full confidence in the prospects of the Group.

In 2007 the Group will, in line with the preset strategic positioning of "marketing-services", make greater endeavor to fulfill the strategic goal of "centering on marketing and distribution and expanding both downstream and upstream along the industrial chain." We will continue to enhance the Group's market leadership as the largest fertilizer distributor in China, and strive to achieve leaping-forward growth in pesticide and seed businesses through merger and acquisitions. Aiming to turn the Company into the largest comprehensive service provider of agricultural inputs in China with a global lead, we will continue to bring higher returns to the shareholders, create wealth for society, and make more contributions to the nation's food security and agricultural development.

On behalf of the Board of Directors, I would also like to take this opportunity to extend our heartfelt appreciations to our shareholders and our customers, as well as the management and the employees. I hope to have the continued support from our shareholders and our customers, and that the management and employees will keep forging ahead and bring in ever greater performance.

Liu De Shu
Chairman of the Board

Hong Kong, 12 April 2007

Chairman's Statement

Note – Potash contract negotiations

In the end of 2005, Belarussian Potash Company (BPC) formally proposed a US$40 per ton increase for 2006 potash shipments to China. Under such a background, the Chinese buying consortium, led by China Chamber of Commerce of Metals Minerals & Chemicals Importers & Exporters (CCCMC) and participated by relevant domestic enterprises, began to negotiate with BPC for 2006 sea borne potash pricing to China. After nearly eight months of multi-round negotiations, an agreement was reached on 21 July 2006, with the parties finally agreeing to increase the price by US$25 per ton, After settlement of the above price negotiations with BPC, other international potash suppliers had also referred to similar price increases, and agreed on the 2006 sea borne potash price to China market.

In addition, in February 2007 the Chinese buying consortium reached a new agreement with BPC on the pricing of sea-borne potash shipments to China for year 2007, which represents a rise of US$ 5.0 per ton over the pricing level of year 2006. Similarly, other international potash suppliers also referred to such price increases and agreed on the 2007 sea-borne potash price to China market. During the same period, potash shipments to Brazil were priced approximately US$ 50 per ton higher than the previous year, and potash shipments to Southeast Asian countries priced approximately US$ 30 per ton higher than the previous year.

Management Review and Prospect

Year 2006 is the first year of China's "11th Five-Year Plan" period and also the beginning of building "new socialist countryside" in China. The Chinese government continues to adopt preferential policies to benefit the farmers and increase investment in the agricultural sector. This includes RMB339.7 billion invested in the rural areas, the farmers and the agricultural sector, in addition to the abolishing of agricultural tax, the enacting of floor-price for grain purchasing, as well as increasing subsidies to grain-growers and subsidies on agricultural means of production. Such policies have boosted the farmers' willingness to increase inputs in agricultural production. As a result, agricultural value added rose by 5% in 2006, and grain output reached 497.45 billion kg, increasing continuously in the past three years. The net income per capita of the farmers increased 7.4%, being the third successive year with annual increase over 6%. The Chinese agriculture and the rural economy have maintained the good momentum of sustainable growth.

Such supportive agricultural policies have led to the steady growth in demand for fertilizers and other agricultural inputs. During 1996-2005, the annual compound growth rate of China's fertilizer consumption reached 3.5%, higher than the world's average of 2%. The Group, as the largest fertilizer enterprise in China, will be able to benefit from the macro-environment of the sustained development of the Chinese agriculture.

Under the guidance and support from the Board of Directors, the Group adhered to the preset development strategy, proactively adopted a series of important measures, and successfully overcame the adverse factors in business operations. As a result, sustained growth was achieved in year 2006.

Product Subdivision Strategy

Potash Fertilizers: China lacks potash resources, and the production of potash is limited, with 70% of potash demand relies on import. In 2006, the annual potash contract negotiations were not concluded until late July, and as a result, the import of sea-borne potash fertilizers to China was suspended for the first eight months of the year. During this period, the Group made full utilization of the strategic potash inventories to stabilize market supply, and on the other hand increased the business volume of domestic potash and maintained the cutting edge of the Group in the potash business. Despite the negative effect of 1.27 million ton less of imported potash sales due to the prolonged potash contract negotiations, the returns remained basically the same as 2005. Total sales volume was 4.56 million ton, accounting approximately 45% of China's potash consumption, and the leading position of the Group in the Chinese potash market was further consolidated.

Management Review and Prospect

Nitrogen Fertilizers: China's nitrogen production capacity is more than adequate, and nitrogen supply exceeds demand. With the implementation of supply-chain management, the Group has continuously expanded the domestic nitrogen supply channel through strategically investing in nitrogen manufacturers with competitive strengths and signing long-term contracts with core suppliers. In addition, by taking the advantages of the distribution network and financial resources, the Group carried out off-season stocking programs by sourcing nitrogen fertilizers while the prices were at low points. This has enabled the rapid expansion of nitrogen sales and improved profitability. In 2006 the Group realized nitrogen sales of 3.71 million ton, increasing by 105% over the same period of last year. This figure accounts for approximately 8% of China's total nitrogen consumption.

Phosphate Fertilizers: China's phosphate production increased rapidly in recent years, and domestic production is adequate to meet the demand. Phosphate import has been on the decline due to increased cost and prices. However, phosphate production in China is concentrated in the regions with rich resources of phosphoric rock, which is at far distance from major consumption areas. As supply increasing from investment projects due to their enlarged capacity, the Group has formed a product mix of both domestic and imported high concentration phosphate fertilizers. By making full use of the Group's distribution network and logistics advantages, we proactively expand the market and have increased our share in the Chinese phosphate market. In 2006 the Group's phosphate sales reached 1.46 million ton, up by 16% year on year.

Compound Fertilizers: China's compound fertilizer production far exceeds demand, with numerous compound fertilizer factories competing fiercely in a disorderly market. The average profit margin of the industry has been in decline. However, imported high quality compound fertilizers are well received by the market. With the supply of various types of specialized compound fertilizers made for different crops and soils from self-owned factories, and through the signing of long-term supply contracts with European compound fertilizer manufacturers to import high quality products needed by the domestic market, the Group is able to meet the diverse needs of different customers. In 2006 the Group's compound fertilizer sales was 1.93 million ton, up by 34% year on year. Compound fertilizer import by the Group accounted for 53% of China's total import, and the dominating position in high-quality compound fertilizer market was further consolidated.

Upstream Production

In 2006 the Group had equity interest in seven fertilizer production enterprises. While improving their production management, these factories also increased production capacity by 0.3 million ton, bringing the total capacity to 3.03 million ton, or an increase of 11% year on year. Altogether these factories supplied 2.55 million ton of various fertilizers (including supplies from enterprises under consignment by Sinochem Corporation) to the Group, up by 0.68 million ton, or an increase of 36% year on year.

In 2006 the Group attached top priorities on expanding the supply mechanism of domestic fertilizers. By strategically investing in nitrogen manufacturers with competitive strength such as Luxi Chemical and Hualu Hengsheng, which are publicly listed on the Shenzhen and Shanghai stock exchange, respectively, the Group had formed a stable base for domestic fertilizer supplies.

Sinochem Corporation, the ultimate controling shareholder of the Company, has always extended its full support to the development of the Group, and granted the Group the options and preemptive right to purchase the three fertilizer production companies in which Sinochem Corporation has equity interest at fair market value and at appropriate time. The total production capacity of these three enterprises is 2.9 million tonnes, of which 1.7 million tonnes is potash fertilizer produced from the non-renewable resource. In addition, the Group has preference as to the sales of the products of these three enterprises, which has further enhanced the Group's position as a major fertilizer producer in China.

Downstream Distribution

In 2006 the Group set up three new branches in northwest China, southwest China and Guangxi region. Meanwhile, new distribution centers were being built to cover the targeted 1,800 agricultural counties throughout the country, with 312 distribution centers newly added. By the end of 2006, the Group's distribution network boasted 1,375 distribution centers and sales outlets, covering 22 agricultural provinces and 80% of the country's arable land. In 2006, sales realized through the distribution network was 7.86 million ton, increasing by 0.58 million ton over 2005.

Aiming to develop and maintain a customer base with those customers at the township level being the majority, the distribution centers had won over 25,000 such customers. Meanwhile, the farmers-oriented service system was further improved. Following the joint project of "Sinofert-CAU R&D Center" set up in 2003 and the "Sinochem Agrichem Square", a radio program for public welfare co-sponsored by Sinofert and the Central People's Radio Station in 2004, in 2006 the Group jointly set up the "Sinofert-CAAS Balanced Fertilization Technological Center" and a laboratory with the Chinese Academy of Agricultural Sciences. A total of 3,300 workshops and events were held to teach the farmers on balanced fertilization; 175 "model villages for scientific fertilization" were set up, and altogether over 2.1 million booklets and fact sheets on fertilizer application techniques were given out to farmers throughout the country. All these activities not only promoted sales and the Company's brand value, but also amplified the image of the Group as a socially responsible company.

Management Review and Prospect

Internal Control and Management

The management of the Company has always attached top priority to the security of shareholders' asset value, and therefore taking the building of an advanced and standardized internal control and management system as the foundation for the Company's long-term, healthy development. In 2006 the Company readjusted the organizational structure to ensure the smooth progress of various operations in line with the need of strategic development. Referring to the COSO framework, the whole business procedures were continuously improved to optimize the internal control and risk management system. On the basis of the existing SAP and DMS (distribution management system) systems, in 2006 a CMP (cash management platform) system was jointly set up with the Agricultural Bank of China to further improve the integration effects of logistics, cash flow and information flow, which has proved effective in risk prevention and control. In addition, the Group has optimized its internal control measures through continued reviews and identification of problems by a dynamic internal auditing mechanism. As a result, the Group's risk prevention capabilities have been constantly improved.

Strategic Planning

In 2006, the Group carried out yearly revision works of the Three-Year Strategic Development Plan (SDP 2007-2009), which was completed through joint efforts of all the staff and members after repeated modifications on the basis of prudently analyzing industrial development trend of the global agricultural inputs market. The plan has been approved by the Board of Directors. In the years to come, the Group will, in line with the preset strategic positioning of "marketing-service", make greater endeavor to fulfill the strategic goal of "centering on marketing and distribution and expanding both downstream and upstream along the industrial chain." We will continue to enhance the Group's market leadership as the largest fertilizer distributor in China, and strive to achieve leaping-forward growth in pesticide and seed businesses through merger and acquisitions. Aiming to turn the Company into the largest comprehensive service provider of agricultural inputs in China with a global lead, we will continue to bring higher returns to the shareholders, create wealth for society, and make more contributions to the nation's food security and agricultural development.

Corporate Culture

The core of the Group's corporate culture is "To Be: Honest, Collaborative, and Adroit in Learning; To Do: Conscientiously, Innovatively, and in Pursuance of Excellence." The rapid development of the Company is fundamentally originated from the constant advocacy of and adherence to a unified corporate culture by the top decision-makers, the management and the employees alike. On such basis a work team featuring unified cultural conceptions, high quality and an adamant working style can be forged, and the environment for being proactive and pursuing high performances can be created. In 2006 the Group, in compliance with the above-mentioned corporate culture, further improved the regulations on new employee recruitment, employee training, performance evaluation, and remuneration and incentives. A number of outstanding employees were selected and appointed to management positions and/or key positions, becoming the new force to push forward the Company's strategic development and business growth.

Outlook

In 2007 the Chinese government is expected to further increase its support to the development of the rural areas, the farmers and the agricultural sector, and government expenditure in this field will reach RMB391.7 billion, which is an increase of RMB52 billion, or up by 15.3% over year 2006. Such preferential policies will help to stimulate the demand for fertilizers and other agricultural inputs to maintain the momentum of stable, sustained growth, therefore providing a favorable external environment for the Group’s future development.

Under the leadership of the Board of Directors, in 2007 the management will adhere to the preset development strategy of “centering on marketing and distribution and expanding both downstream and upstream along the industrial chain,” and continue to expand the scale of the distribution network by building distribution centers in China’s 1,800 agricultural counties. We will also strengthen the global and domestic multi-channel supply system and improve product mix and marketing services so as to uplift the business scale and profitability of the Company. We will continue to make strategic investment to improve the efficiency of the domestic fertilizer business and ensure stable and sustained growth, and push forward the exercise of the options and preemptive right to purchase the three fertilizer production companies in which Sinochem Corporation has equity interest at fair market value and at appropriate time. At the same time, we will grasp the opportunities and strive for rapid progress in the pesticides and seeds businesses by mergers and acquisitions. We will continue to give top priority to the safety of shareholders’ assets value, and constantly improve the internal control system in compliance with the requirements of the listing rules and corporate development so as to achieve fast and stable growth and create higher value and returns for all the shareholders.


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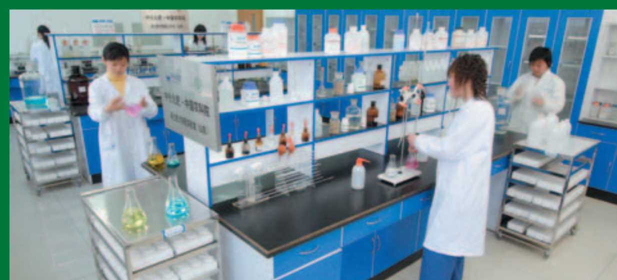


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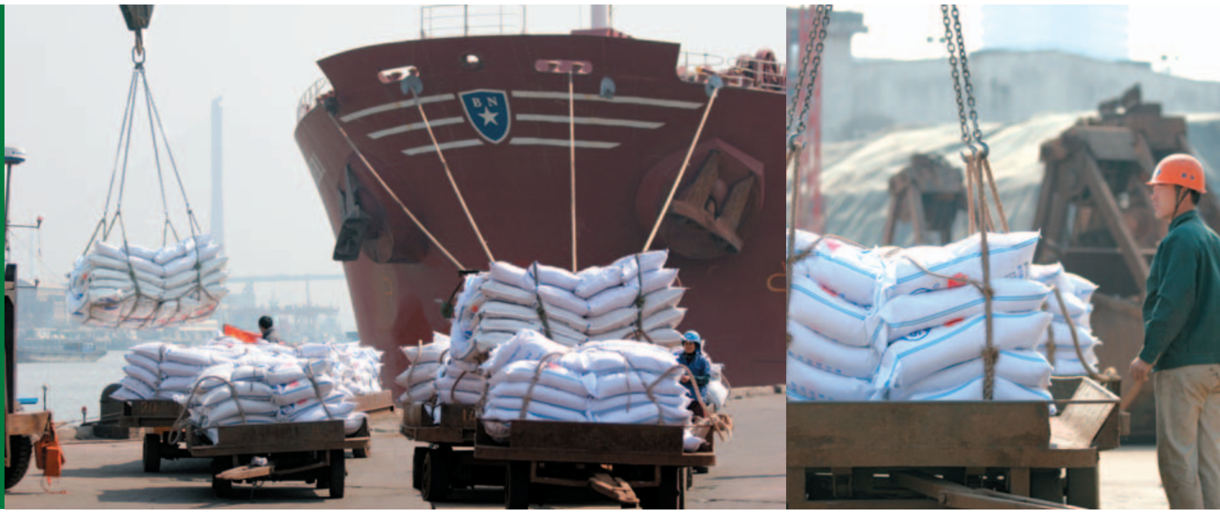
Management's Discussion and Analysis



For the twelve months ended 31 December 2006, sales volume of the Group reached 12.57 million ton, turnover was HK$21,127 million, representing an increase of 12.56% and 9.76%, respectively, over the corresponding period of 2005.

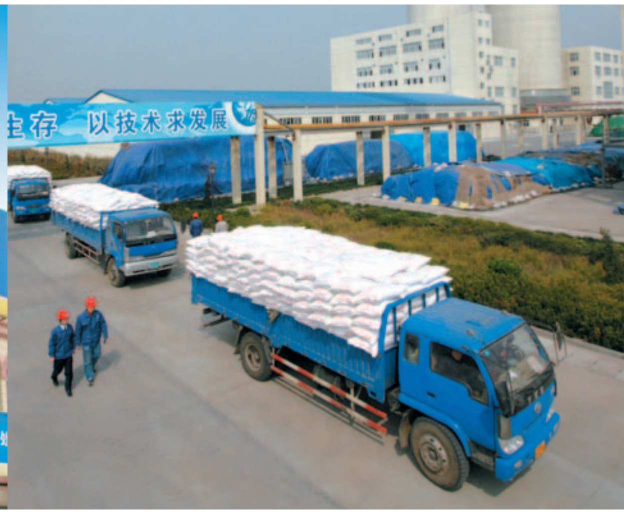
For the twelve months ended 31 December 2006, gross profit of the Group reached HK$1,707 million, net profit was HK$896 million, representing an increase of 10.66% and 14.99%, respectively, over the corresponding period of 2005.

I. Operation Scale

1. Sales volume

For the twelve months ended 31 December 2006, sales volume of the Group reached 12.57 million ton, up by 12.56% over the corresponding period of 2005. Due to the impact of the prolonged potash contract negotiations, the sales of imported fertilizers decreased from 6.36 million ton in 2005 to 5.3 million ton in 2006, representing a decrease of 16.53%. By vigorously expanding domestic fertilizer business operations, sales of domestic fertilizers increased from 3.85 million ton in 2005 to 6.36 million ton in 2006, representing an increase of 65.07%. In 2006, the sales of domestic fertilizers exceeded that of imported fertilizers by 19.80%.

In terms of product structure, the sales of potash fertilizers decreased by 19.97% year on year, which was caused mainly by the suspension of potash import during first half 2006 due to the prolonged potash contract negotiations. The sales of nitrogen fertilizers increased by 104.64%, which was mainly attributable to the Group's innovative resource acquisition method - setting up a core supplier system by consolidating strategic alliances with suppliers through capital bonds, as well as to the expansion of the distribution network. The sales of compound fertilizers grew by 34.35% year on year, which was mainly attributable to the increase of both imported and domestic compound fertilizers. The sales of phosphate fertilizers remained basically the same as that of the corresponding period of last year. If the sales of rock phosphate were deducted from the 2005 figure, the sales of phosphate fertilizers would have been increased by 15.96%, which was attributable to the increased sales of domestic phosphate fertilizers.



2. Turnover

For the twelve months ended 31 December 2006, turnover of the Group reached HK$21,127 million, up by HK$1,878 million over the corresponding period of 2005, or an increase of 9.76%, which was slightly lower than the 12.56% increase rate of sales volume. This was mainly due to the decreased sales of potash fertilizers, which were of higher prices, but the increased sales of low-priced nitrogen fertilizers.

Table 1:

	For the twelve months ended 31 December 2006		For the twelve months ended 31 December 2005	
	Turnover ***HK$'000***	**As percentage of total turnover**	Turnover *HK$'000*	As percentage of total turnover
Potash fertilizers	**8,545,679**	**40.45%**	10,122,007	52.59%
Nitrogen fertilizers	**5,156,519**	**24.41%**	3,010,152	15.64%
Compound fertilizers	**3,889,163**	**18.41%**	2,807,174	14.58%
Phosphate fertilizers	**2,813,010**	**13.31%**	2,641,101	13.72%
Others	**722,200**	**3.42%**	668,231	3.47%
Total	**21,126,571**	**100.00%**	19,248,665	100%

Management's Discussion and Analysis

II. Profit

1. Gross profit margin

For the twelve months ended 31 December 2006, gross profit margin of the Group was 8.08%, which was slightly higher than that for the corresponding period of 2005.

The changes of gross profit margins of various products are as follows: Due to the suspension of sea-borne potash import caused by the prolonged potash contract negotiations, the Group made full utilization of its potash inventories and Group adopted different marketing strategies in specific regional markets, which had helped to increase the gross profit margin of potash fertilizers on a year on year basis. The gross profit margin of nitrogen fertilizers also increased thanks to the improved supply chain management and the enhanced efficiency of the distribution network operations. The gross profit margin of phosphate fertilizers decreased on a year on year basis due to increased domestic production and market price fluctuations. The gross profit margin of compound fertilizers also decreased on a year on year basis, which was mainly due to oversupply in the domestic market.

2. Share of results of jointly controlled entities

For the twelve months ended 31 December 2006, the share of results of jointly controlled entities of the Group was HK$41 million, which was mainly from Hubei Dongfang, Sinochem Kailin, Yunan Three Circle-Sinochem-Cargill and other plants. This figure was down by 17.83% from that of HK$50 million for the corresponding period of 2005. This was mainly caused by lowered profitability of the production enterprises, which was the result of increased cost of raw materials for phosphate and compound fertilizer production, making the industrial average profitability declined.

3. Income tax expense

For the twelve months ended 31 December 2006, income tax expense of the Group was HK$99 million, and the taxation burden was 9.88%. For the corresponding period of 2005, the income tax expense was HK$138 million, and the taxation burden was 14.79%. A comparison shows that the taxation burden is lowered, which is mainly attributable to that the business of the Group is chiefly conducted in China's mainland, Macao and Hong Kong, at which the income tax rates vary. PRC income tax rate is 33%, profit derived in Macao is exempted from income tax, while Hong Kong profits tax rate is 17.5%. The Company strictly abides by the taxation laws of the three jurisdictions and pays taxes accordingly. In 2006 the expansion of the distribution network incurred higher shipment cost, railway tariffs increased, and expenditure on agrichemical services and brand promotions rose. These factors led to increases in selling and distribution cost in the PRC, which lowered the profit before income tax, and consequently reduced income tax expense in the PRC, thus lowering the Group's overall taxation burden.

Income tax rates applicable to the Group are set out as below:

1. PRC enterprise income tax applicable to the Group's subsidiaries operating in the PRC is 33% (2005: 33%). Certain subsidiaries of the Group in the PRC are entitled to preferential income tax treatments which are detailed below:

   (a) Sinochem Chongqing Fuling Chemical Fertilizer Company ("Sinochem Fuling"), a 60% owned subsidiary of the Group, is currently subject to a preferential PRC enterprise income tax rate of 15% granted by the local tax bureau of Chongqing City in July 2001. According to the policy for the development of the Western region of the PRC promulgated by the State Council, Sinochem Fuling is entitled to this preferential income tax treatment from 2002 to 2010 provided it is engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) and its principal business and revenue from the principal operations accounts for over 70% of its total revenue.

(b) Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited ("Sinochem Zhisheng"), a 53.19% owned subsidiary of the Group, is currently entitled to a preferential income tax treatment granted by the State Tax Bureau of Fujian province. Pursuant to such preferential income tax treatment, the amount invested in domestically made machinery by Sinochem Zhisheng in a particular year under its technological renovation project for compound fertilizer production can be applied to set off against the enterprise income tax of the preceding year.

2. Profit derived in Macao is exempted from income tax.

3. Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

4. Net profit and net profit margin

For the twelve months ended 31 December 2006, the Group realized net profit of HK$896 million, up by 14.99% over that of HK$779 million for the corresponding period of 2005. This was mainly attributable to an increase of HK$164 million in gross profit caused by a stable gross profit margin and enlarged sales volume. The net profit margin was 4.24%, up by 0.19 percentage points over that of 4.05% for the corresponding period of 2005.

III. Expenditures

Selling and distribution expenses for the twelve months ended 31 December 2006 was HK$535 million, up by 35.54% over that of HK$395 million for the corresponding period of 2005. It was mainly attributed to the year-on-year increase in sales volume which incurred proportionally higher expenses in transportation and warehousing, and increased railway tariffs, as well as rising expenditure on agrichemical services and brand promotions.

Administrative expense for the twelve months ended 31 December 2006 was HK$187 million, down by 16.10% from that of HK$223 million for the corresponding period of 2005. If the effect of the "provision for impairment of inventories" were readjusted, administrative expense would have been up by HK$29 million, or 15.63% year on year, which was mainly caused by increased expenditures arising from the expansion of the distribution network.

Finance cost for the twelve months ended 31 December 2006 was HK$129 million, up by 14.46% over that of HK$112 million for the corresponding period of 2005, which was mainly due to increased capital use caused by increased sales volume.

IV. Cash Flow

Cash inflow of the Group for the twelve months ended 31 December 2006 was HK$10 million, which includes:

1. a cash inflow of HK$77 million from business operations attributable to lowered inventories, faster turnover, and timely collection of receivables;

2. a cash outflow of HK$290 million to investment activities, i.e., HK$300 million for property, plants and equipment purchase, HK$241 million for the purchase of shares Luxi Chemical and Hualu Hengsheng, HK$191 million received from disposal of investment properties, and HK$44 million received from investment returns; and

3. a cash inflow of HK$223 million from financing activities, i.e., proceeds of HK$1,272 million received in cash from the issue of convertible bonds, HK$834 million in repayment of bank loans, HK$117 million in dividend payout, and HK$96 million in payment for interest.

V. Inventory Turnover

The inventory balance of the Group as at 31 December 2006 was HK$4,365 million, decreasing by 9.04% from HK$4,798 million as at 31 December 2005. Due to faster turnover rate, inventory turnover day(note) decreased from 90 days in 2005 to 85 days in 2006, thus improving assets operating efficiency.

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 365 days.

VI. Trade and Bills Receivable

The balance of the Group's trade and bills receivable as at 31 December 2006 was HK$1,272 million, up by 50.27% over that of HK$847 million as at 31 December 2005. In terms of structure, however, trade receivables decreased by HK$313 million, or 77.42%; bills receivable increased by HK$738 million, or 166.73%, which was mainly caused by the issue of convertible bonds allowing fund sufficiency with no need to finance from bills discounting. Because collection of bills receivables is guaranteed by the banks, the risk in collecting bills receivables is low.

Trade and bills receivable turnover day(note) increased from 13 days in 2005 to 18 days in 2006.

Note: Calculated on the basis of average trades and bills receivables balance as at the end of the reporting period divided by turnover, and multiplied by 365 days.

VII. Properties, Plants and Equipment

As at 31 December 2006, the balance of the Group's properties, plants and equipment was HK$901 million, increasing by 24.02% over that of HK$727 million as at 31 December 2005. This was mainly due to increased fixed assets arising from investment in the 0.3 million ton MAP project and 0.2 million ton ammonium and 0.2 million ton urea project at Sinochem Fuling.

Management's Discussion and Analysis

VIII. Investment Properties

As at 31 December 2006, the balance of the Group's investment properties was HK$15 million, decreasing by 90.92% from that of HK$160 million as at 31 December 2005. This was mainly due to the disposal of the Group's investment properties in Hong Kong.

IX. Interests in Jointly Controlled Entities

As at 31 December 2006, the balance of the Group's interests in jointly controlled entities was HK$382 million, increasing by 3.75% over that of HK$368 million as at 31 December 2005. This was mainly caused by:

1. a reduction of HK$43 million of interests in Yunnan Three Circle-Sinochem-Cargill Fertilizer Company Limited due to dividend payout;

2. an increase of HK$41 million of interests arising from using the equity method of accounting, and

3. an exchange difference of HK$13 million arising from revaluation of RMB.

X. Available-for-Sale Investments

As at 31 December 2006, the balance of the Group's available-for-sale investments was HK$290 million, while the figure as at 31 December 2005 was HK$14 million. This was mainly attributable to original investments of HK$241 million in purchase of shares of Luxi Chemical and Hualu Hengsheng, plus HK$40 million arising from appreciation.

XI. Prepayments and Other Receivable

As at 31 December 2006, the balance of the Group's prepayments and other receivable was HK$1,336 million, up by 194.27% over that of HK$454 million as at 31 December 2005. This was mainly due to the increased purchase of domestic fertilizers at the end of year 2006, which incurred an amount of HK$949 million in prepayments. However, the goods paid for in this amount had not been delivered per the provisions of the purchase contracts as at 31 December 2006.

XII. Long-Term Loans

As at 31 December 2006, the balance of the Group's long-term loans was HK$363 million, up by 55.13% over that of HK$234 million as at 31 December 2005. This was mainly caused by:

1. repayment of long-term loans of HK$69 million; and

2. a long-term loan of HK$200 million newly obtained and used for the 0.3 million ton DAP project and 0.2 million ton ammonium and 0.2 million ton urea project at Sinochem Fuling.

XIII. Trade and Bills Payables

As at 31 December 2006, the balance of the Group's trade and bills payables was HK$1,815 million, decreasing by 25.86% from that of HK$2,448 million as at 31 December 2005. Specifically, the amount of trade payables remained the same level as at 31 December 2005, while the amount of bills payables decreased by HK$598 million, which was the result of payment for goods purchased being made in telegraphic transfer instead of bills payables.

XIV. Receipts in Advance and Other Payables

As at 31 December 2006, the balance of the Group's receipts in advance and other payables was HK$939 million, increasing by 125.07% over that of HK$417 million as at 31 December 2005. This was mainly attributable to an increase of HK$574 million in receipts in advance by Sinochem Fertilizer Co. Ltd and its distribution network from the customers.

XV. Convertible Bonds

The Company issued 130,000 zero coupon notes with face value of HK$10,000 each on 7 August 2006. The convertible loan notes are denominated in Hong Kong dollars. The notes entitle the holders to convert them into ordinary shares of the Company on or after 22 August 2006 up to and including the close of business on 23 July 2011 or, if the notes shall have been called for redemption before the 7 August 2011 (maturity date), then up to the close of business on a date no later than seven business days prior to the date fixed for redemption at a conversion price of HK$3.74 per ordinary share (subject to adjustment). If the notes have not been converted or early redeemed, they will be redeemed on the maturity date at 127.23% of the face value of the notes.

The Company may, on or at any time after 7 August 2009 and prior to 7 August 2011, redeem all, but not in part, of the notes at the early redemption amount (for each HK$10,000 principal amount of the notes, is determined so that it represents for the noteholder a gross yield at 4.875% per annum, calculated on a semi-annual basis) subject to certain conditions being fulfilled. The note holders also have the right to require the Company to redeem all or in part of the notes at 115.55% of the face value on 7 August 2009.

The convertible loan notes contain two components with liability component stated at amortized cost and derivatives (conversion option, holder redemption option and issuer redemption option) stated at fair value. An issue cost of HK$27,513,000 relating to the liability component is included into the fair value of liability component at the date of issue. The effective interest rate of the liability component is 6.82%.

As at 31 December 2006, an amount of HK$33 million in interest to be paid on the convertible loan notes was recorded as finance cost for the reporting period.

Management's Discussion and Analysis

XVI. Other Financial Indicators

Earnings per share (EPS) for the twelve months ended 31 December 2006 was 15.43 HK cents, increasing by 6.49% over that of 14.49 HK cents for the corresponding period of 2005, which was mainly attributable to the growth of net profit in 2006. If the non-cash finance cost arising from the issue of convertible bonds readjusted, the EPS for year 2006 would be 15.99 HK cents, which was up by 10.35% over that of year 2005.

Return on equity (ROE) for the twelve months ended 31 December 2006 was 20.61%, decreasing by 1.82 percentage points over that of 22.43% for the corresponding period of 2005. This was mainly attributable to that the increase rate of net profit was lower than the increase rate of equity. In 2006 net profit rose by 14.99%, while equity increased by 25.14% thanks to RMB revaluation and investment appreciation.

The current ratio increased from 1.41 as at 31 December 2005 to 1.93 as at 31 December 2006, showing improved short-term solvency. The debt-to-equity ratio increased from 34.40% as at 31 December 2005 to 37.03% as at 31 December 2006.

Table 2:

	2006	2005
Profitability		
EPS (HK cents) *(Note 1)*	**15.43**	14.49
EPS (HK cents) *(Note 2)*	**15.99**	14.49
Return on equity *(Note 3)*	**20.61%**	22.43%
Solvency		
Current ratio *(Note 4)*	**1.93**	1.41
Debt-to-equity ratio *(Note 5)*	**37.03%**	34.40%

Note 1: Calculated on the basis of net profit for the reporting period (excluding minority interests) divided by weighted average number of shares for the reporting period.

Note 2: Calculated on the basis of net profit for the reporting period (excluding minority interests and non-cash finance cost arising from the issue of convertible bonds) divided by weighted average number of shares for the reporting period.

Note 3: Calculated on the basis of net profit for the reporting period (excluding minority interests) divided by total equity as at the end of the reporting period.

Note 4: Calculated on the basis of current assets divided by current liabilities as at the end of the reporting period.

Note 5: Calculated on the basis of total interest-bearing debt divided by total equity as at the end of the reporting period.

XVII. Liquidity and Financial Resources

The Group's principal sources of financing included cash generated from operations and bank borrowings. All the financial resources were primarily used for the Group's trading and distribution, production, repayment of liabilities as they fall due and for related capital expenditures.

As at 31 December 2006, cash and cash equivalents of the Group were HK$86 million, which was mainly denominated in RMB and US dollar.

Set out below is an analysis of long-term and short-term loans of the Group:

Table 3:

	As at 31 December 2006 *HK$'000*	As at 31 December 2005 *HK$'000*
Secured	**53,747**	126,744
Guaranteed	**19,906**	13,044
Unsecured	**388,617**	1,119,352
Total	**462,270**	1,259,140

The Group intended to meet its obligations for the above loans by using internal resources.

As at 31 December 2006, the Group had banking facilities of HK$9,865 million, including US$495 million, 6,070 million RMB, and HK$5 million, dominated in respective currencies. The amount of banking facilities already used was HK$2,291 million, and that of unused was HK$7,574 million.

XVIII. Operation and Financial Risks

The Group's major operation risks include: uncertainties of the impact of Chinese government policies on the fertilizer industry; price fluctuations of the fertilizer market; as well as uncertainties caused by government influence as shown in the 2006 potash contract negotiations.

The Group's financial risks include market risks (currency risk, fair value interest rate risk and price risk), credit risk and liquidity risk as well as cash flow interest rate risk.

XIX. Contingent Liabilities

As at 31 December 2006, the Group had no material contingent liabilities.

Management's Discussion and Analysis

XX. Capital Commitments

Table 4:

	As at 31 December 2006 *HK$'000*	As at 31 December 2005 *HK$'000*
Assets under construction		
Contracted but not provided for	**187,404**	71,922
Authorized but not contracted for	**21,655**	8,459
Subtotal	**209,059**	80,381
Investment in Yunnan Three-Circle Sinochem Fertilizer Company Limited	**139,345**	134,577
Total	**348,404**	214,958

XXI. Major Investment

As at 31 December 2006, the Group's major investment amounted to HK$538 million, including HK$297 million invested in projects under construction at Sinochem Fuling, HK$129 million in purchase of shares of Luxi Chemical, and HK$112 million in purchase of shares of Hualu Hengsheng.

Chronicle of Events

1. On 27 January 2006, PotashCorp, the world's largest potash producer and strategic investor of the Company, exercised 10.01% (581,375,779 ordinary shares) of purchase option on the first eligible day of the exercisable period, increasing its shareholding in the Company to 20%. PotashCorp is the second largest shareholder of the Company.

2. In February 2006, the Group launched a series of agrichemical service activities in the three provinces in northeast China as part of the Group's national action plan to provide "fertilizers, application techniques and services" to the farmers. These activities drew attention and wide coverage by major news media, including the CCTV, the Central People's Radio Station, Xinhua News Agency, *People's Daily*, *Economic Daily*, *Guangming Daily* and the *Farmer's Daily*.

3. In March 2006, the first "Sinofert Scientific Fertilization Model village" was set up in Heilongjiang Province, unfolding the plan to build such "model villages" nationwide by the Group.

4. In April 2006, a new 300,000 tonne per annum capacity MAP line successfully went into production at Sinochem Fuling.

5. In April 2006, the Group signed Memorandum of Understanding for the cooperation during 2007-2009 with CANPOTEX of Canada, which secured the stable supply of potash fertilizer for the Chinese market during the next three years.

6. In April 2006, the Group signed a 400,000 tonne-sulphur purchase agreement for the year 2006 with Saudi Industrial Export Company (SIEC).

7. In May 2006, Canadian potash marketed by the Group was designated to be "Specialty Fertilizer for Hainan Province Super Rice Program" by the Agricultural Science Institute of Hainan Province.

8. In June 2006, the Group set up two new branches in northwest and southwest China to promote its marketing abilities in these regional markets.

9. In June 2006, as one of 40 famous brand names in China, Sinofert participated in the launching ceremony of the national "Brand Promotion Tour" organized by the Ministry of Commerce, kicking off the year-round nationwide brand promotion activities.

10. In July 2006, the Group subscribed for 50,000,000 non-public offered A shares with par value of RMB2.6 each in Luxi Chemical (Shenzhen Stock Exchange code No. 000830), which accounts for 4.78% of the enlarged share capital of Luxi Chemical.

11. In July 2006, the Company successfully issued HK$1.3 billion zero-coupon convertible bond.

12. In July 2006, the potash contracts negotiations finally concluded, and the Company signed 2006 annual purchase contracts with international suppliers BPC, CANPOTEX, DSW, and APC, respectively.

Chronicle of Events

13. In August 2006, Sinofert Guangxi Branch Company was set up.

14. In August 2006, the Group renewed its memorandum on 2007-2009 three-year cooperation with DSW and APC, respectively. This helps to ensure the sustainable supply of potash fertilizers to the Chinese market in the next three years.

15. In September 2006, the Company announced its 2006 Interim Report.

16. In November 2006, the Group subscribed for 15,000,000 non-public offered A shares of RMB7.5 each in Hualu Hengsheng (Shanghai Stock Exchange code No. 600426), which accounts for 4.54% of the enlarged share capital of Hualu Hengsheng, making the Group the second largest shareholder of Hualu Hengsheng.

17. In December 2006, the Company changed its name in Chinese from "中化香港控股有限公司" to "中化化肥控股有限公司", and its name in English from "Sinochem Hong Kong Holdings Limited" to "Sinofert Holdings Limited". The stock name of the Company also changed to "中化化肥" in Chinese and "SINOFERT" in English, but the stock code remains the same.

18. In December 2006, the Group and the Chinese Academy of Agricultural Sciences (CAAS) jointly set up the "Sinofert-CAAS Balanced Fertilization Technological Center" and related laboratory and service stations in the aim of completing the Group's agrichemical service system, providing better services to the farmers, and uplifting the brand value of the Group.

Directors and Senior Management

Directors

Mr. LIU De Shu – Non-Executive Director and Chairman of the Board

Mr. LIU De Shu, aged 54, joined the Company as the Chairman of the Board of Directors in April 2004. Mr. Liu graduated from Tsinghua University in the PRC in April 1979 and from China Europe International Business School with an EMBA in 1998. In March 1998 Mr. Liu became the President and Chief Executive Officer of Sinochem Corporation. He was once the deputy general manager, the general manager and the chairman of China National Machinery & Equipment Import & Export Corporation. Mr. Liu holds other senior positions in several subsidiaries and joint venture companies of Sinochem Corporation, namely the vice chairman of Dalian West Pacific Petrochemical Co., Ltd., the chairman of Lion Fund Management Ltd. and the director of Manulife-Sinochem Life Insurance Co. Ltd. and China World Trade Center, respectively.

Mr. Liu has over 22 years of extensive corporate management experience in large enterprises and has profound and yet pragmatic experiences in corporate strategic development, operation and internal control. Thanks to the outstanding performance of Sinochem Corporation under his leadership, in 2004 Mr. Liu was named by China Management Central Media Association and Phoenix TV as one of the "Top 10 Most Valuable Managers" in China. Mr. Liu is a member of the 10th National Committee of the Chinese People's Political Consultative Conference and a director of IAM.

Mr. SONG Yu Qing – Deputy Chairman and Non-Executive Director

Mr. SONG Yu Qing, aged 58, joined the Company in August 2001 and is the Deputy Chairman of the Board of Directors and a Non-executive Director. Before he joined Sinochem Corporation in 1987, Mr. Song was an official in MOFTEC (Ministry of Foreign Trade and Economic Cooperation). In Sinochem Corporation, he was in charge of the human resources and was promoted as the Vice President of Sinochem Corporation in May 1993. In November 1995, Mr. Song was transferred to work as the Deputy General Manager of Shanghai Foreign Trade Center which was responsible for the construction of Jinmao Tower in Shanghai. From January 1999 till now, Mr. Song has been a director and the Managing Director of Sinochem Hong Kong (Group) Company Limited.

Mr. DU Ke Ping – Executive Director and Chief Executive Officer

Mr. DU Ke Ping, aged 45, is an Executive Director and Chief Executive Officer of the Company. He graduated from the accounting department of Shandong Economic Institute with a Bachelor's degree in 1983, and obtained an MBA degree from the University of International Business and Economics in 1997. Before joining the Sinochem Corporation, Mr. Du was an official of the Ministry of Foreign Trade and Economic Cooperation (the predecessor of the Ministry of Commerce), and once served at KPMG. During his 18-year service term at Sinochem Corporation, he held a number of senior positions as financial manager of America West Pacific Refinery Co., deputy general manager of Sinochem Rubber Co., deputy general manager of Sinofert, general manager of Sinochem Yu Hua Loong Trading SDN. BHD., general manager of Sinochem International Rubber Co. and assistant president of Sinochem Corporation. He was appointed as the general manager of Sinofert in 1999 and was later promoted to Vice President of Sinochem Corporation in charge of the overall management of the fertilizer business. Since 14 February 2006, Mr. Du no longer held the position of Vice President of Sinochem Corporation so as to devote the whole of his time to lead the management and operations of the Company. Mr. Du has a profound understanding of corporate management and business operations with a keen insight on financial management and international strategic alliances.

Directors and Senior Management

Mr. Harry YANG – Executive Director and Deputy General Manager

Mr. Harry YANG, aged 44, is currently an Executive Director and Deputy General Manager of the Company. Mr. Yang graduated from Shandong Normal University in 1983 with a Bachelor's degree and from the University of International Business and Economics in 1989 with a Master's degree in Economics. Mr. Yang joined Sinochem Corporation in 1989 and served successively as the general manager of Sinochem (USA) Inc. and Sinochem International London Oil Co. Ltd. and other positions. In 2002 Mr. Yang was appointed as the deputy general manager of fertilizer group and director and general manager of the US Agrichemicals Corp, and was promoted to the present position in March 2006. Mr. Yang possesses years of experiences in international trade and fertilizer business with a deep understanding of the international fertilizer market. Mr. Yang is responsible for the management of the Company's investor's relations and property operations. Mr. Yang had served at Sinochem Corporation for over 18 years.

Dr. CHEN Guo Gang – Non-executive Director

Dr. CHEN Guo Gang, aged 47, is currently a Non-executive Director of the Company. Dr. Chen graduated from the accounting department of Xiamen University with a Doctorate degree in 1988 and is a Senior Accountant in the PRC. Dr. Chen joined Sinochem Corporation in 1991 and served successively as the deputy general manager of Financial Department, vice president of China United Petrochemical Co., and general manager of Financial Department of Sinochem Corporation. Dr. Chen now serves as the Chief Financial Officer of Sinochem Corporation responsible for finance, risk management and insurance of Sinochem Corporation. Dr. Chen has a profound understanding on finance management, international financing, capital management and risk control. He is also a director of Sinochem International Corp (listed on the Shanghai Stock Exchange).

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 56, is a Non-executive Director of the Company. He is currently the Senior Vice President of Fertilizer Sales for PCS Sales (USA) Inc., which is a wholly-owned subsidiary of Potash Corporation of Saskatchewan Inc. ("PotashCorp"). He is also a board member of Phosphate Chemicals Export Association, Inc., an export marketing association composed of several phosphate fertilizer companies through which member companies market and sell phosphate fertilizers, of which PotashCorp is a member. Dr. Dowdle obtained a Bachelor of Arts degree from Brown University and a Ph.D. in Agronomy and Soil Science from the University of Hawaii. While completing his Ph.D., Dr. Dowdle lived in China and did advance field research at Central China Agricultural University, Wuhan, China. Dr. Dowdle has over 21 years experience in the fertilizer business, and has considerable experience in China and Asia, having lived and worked in the region for over 15 years.

Mr. Wade FETZER III – Non-executive Director

Mr. Wade Fetzer III, aged 69, is a Non-executive Director of the Company. He graduated from the University of Wisconsin with a bachelor's degree in economics in 1959 and from the Northwestern University with a Master of Business Administration degree in 1961. Mr. Fetzer is experienced in the areas of finance. After 10 years in the fields of investment banking and management consultancy, Mr. Fetzer became a general partner of Goldman Sachs & Co. in 1986 heading up its investment banking for the 16 states midwest region of the United States of America. He became a limited partner of the same firm in 1994 and is now a retired partner. Mr. Fetzer is currently a director of the University of Wisconsin Foundation and the Kellogg Alumni Advisory Board and a trustee of the Rush Medical Center. He is also a director of PotashCorp.

Directors and Senior Management

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

Mr. KO Ming Tung, Edward, aged 46, joined the Company in April 2000 as an Independent Non-executive Director and is presently the Chairman of the Nomination Committee. He obtained a Bachelor of Laws Degree 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 practising as a solicitor in Hong Kong for more than 16 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a Member of the Panel of Adjudicators of the Obscene Articles Tribunal, Solicitors Disciplinary Tribunal Panel and Employment Law Committee of The Law Society of Hong Kong. Mr. Ko was appointed as tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is currently a Manager of Chiu Chow Association Secondary School. Mr. Ko is also an independent non-executive director of Guo Xin Group Limited, and was an independent non-executive director of INNOMAXX Biotechnology Group Limited, New Smart Holdings Limited (now known as New Smart Energy Group Limited) and Thiz Technology Group Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

Dr. LI Ka Cheung, Eric – Independent Non-executive Director and Chairman of the Audit Committee

Dr. LI Ka Cheung, Eric, GBS, OBE, JP, FCPA, LLD, DSocSc., B.A., aged 53, joined the Company in September 2004 as an Independent Non-executive Director and is currently the Chairman of the Audit Committee. Dr. Li obtained a Bachelor of Arts (Economics) Hon. degree from the University of Manchester in 1975 and is the Senior Partner of Li, Tang, Chen & Co., a firm of Certified Public Accountants (Practising). He has over 31 years of experience in the accounting field and is currently an independent non-executive director of Transport International Holdings Limited, SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, CATIC International Holdings Limited, Hang Seng Bank Limited, China Resources Enterprise, Limited, RoadShow Holdings Limited, Bank of Communications Co., Ltd. and Meadville Holdings Limited and a non-executive director of Sun Hung Kai Properties Limited, all of which are companies whose shares are listed on the Stock Exchange. Dr. Li was a director of China Vanke Company Limited, a company listed on The Shenzhen Stock Exchange and he was also a director of SIIC Medical Science & Technology (Group) Limited, which was then a company listed on the Stock Exchange. Between the period from 1991 to 2004, Dr. Li was a member of the Legislative Council, and between 1995 to 2004, the Chairman of the Public Accounts Committee of the Legislative Council of Hong Kong. He was formerly the president of the Hong Kong Institute of Certified Public Accountants and is currently a fellow member of The Institute of Chartered Accountants in England & Wales, the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Secretaries and Administrators, the United Kingdom, and The Hong Kong Institute of Chartered Secretaries (formerly known as the Hong Kong Institute of Company Secretaries). Dr. Li is a member of The 10th National Committee of the Chinese People's Political Consultative Conference.

Directors and Senior Management

Dr. TANG Tin Sek – Independent Non-executive Director and Chairman of the Remuneration Committee

Dr. TANG Tin Sek, aged 48, joined the company in April 2000 as an Independent Non-executive Director. Dr Tang is a Certified Public Accountant and a partner of Terence Tang & Partners. He is also an independent non-executive director of CEC International Holdings Limited, New Smart Energy Group Limited, China Mining Resources Group Limited, Frankie Dominion International Limited and Interchina Holdings Company Limited, all of which are companies whose shares are listed on the Stock Exchange. He obtained a Bachelor of Science degree from the University of Hong Kong in 1980, a Master of Business Administration degree from the University of Sydney, Australia in 1990 and a Doctor of Accountancy Degree from the Hong Kong Polytechnic University in 2004. He has over 25 years' experience in corporate finance, business advisory, financial management and auditing. He is also a member of the Chinese Institute of Certified Public Accountants, the Institute of Chartered Accountants in Australia and the Chartered Association of Certified Accountants in the United Kingdom.

Senior Management

Mr. ZHANG Bao Hong – Chief Financial Officer

Mr. ZHANG Bao Hong, aged 40, is the Chief Financial Officer of the Company. He graduated from the Guangdong University of Foreign Studies in 1988 majoring in corporate finance management, with a bachelor's degree in economics. Mr. Zhang obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Zhang joined Sinochem Corporation in 1988 and once served as the financial director of Sinochem Japan Co. Ltd. Mr. Zhang was appointed as general manager of the Financial Department of Sinofert in June 1999, and then promoted to deputy general manager of the fertilizer group in August 2000. Mr. Zhang was promoted to the present position in August 2005, and had acted as an important member in the work of the Fertilizer Group's capital reorganization and reverse takeover and re-listing.

Mr. LI Qiu Bing – Chief Operation Officer

Mr. LI Qiu Bing, aged 39, is the Chief Operation Officer of the Company. Mr. Li graduated from Beijing Industrial University in 1990 with a bachelor's degree in economics, majoring in foreign economics and trade, and in 2004 obtained an FMBA degree jointly granted by Tsinghua University and the Chinese University of Hong Kong. In 1990 Mr. Li joined China National Agricultural Means and Production Company (CNAMPGC), and joined Sinofert in February 2003. Mr. Li was promoted to deputy general manager of Sinofert in November 2003, and appointed the present position in December 2005.

Mr. WANG Tie Lin – Deputy General Manager

Mr. WANG Tie Lin, aged 40, is Deputy General Manager of the Company. Mr. Wang graduated from Department of Mechanical Engineering of Tsinghua University with a Bachelor's degree in 1990, and Master's degree in 1994. Mr. Wang joined China Industrial Machinery Import and Export Corp in 1994, and in 2003 joined Lion Fund Management Co., Ltd, of which Sinochem Corporation, the ultimate controlling shareholder of the Company, is a shareholder. Mr. Wang joined Sinofert and was promoted to the present position in May 2006.

Directors and Senior Management

Mr. SHEN Qi – Deputy General Manager

Mr. SHEN Qi, aged 34, is Deputy General Manager of the Company. Mr. Shen graduated from Peking University in 1995 majoring in domestic economics management with a bachelor's degree in economics, and is now pursuing an EMBA degree in Cheung Kong Graduate School of Business. He first joined Sinochem Corporation in 1995, and then Sinofert in 1997 as department general manager. In November 2003, Mr. Shen was appointed deputy general manager of Sinofert, and was promoted to the present position in August 2005.

Ms. CHEN Yi Qing – Director of Human Resources

Ms. CHEN Yi Qing, aged 35, is Director of Human Resources of the Company. Ms. Chen graduated from Beijing Economics Institute with a bachelor's degree in economics in 1993, majoring in trade and economics, and from the Capital University of Economics and Business with a Master's degree in human resources management in 2000. Ms. Chen worked for China Packaging Import and Export Corp since 1993, and joined Sinofert in March 2001. Ms. Chen was appointed general manager of the Human Resources Department of Sinofert in November 2003, and promoted to the present position in August 2005.

Ms. TSE Yin Hung, Bonnie – Financial Controller

Ms. TSE Yin Hung, Bonnie, aged 45, joined the Company in July 1997 and is the Financial Controller and qualified accountant of the Company, responsible for the Company's finance, accounting and corporate administration. Ms. Tse graduated from the University of Technology, Sydney in 1988 and is a holder of a Bachelor of Business Degree, majoring in Accounting. She is a member of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the Australian Society of Certified Practising Accountants and has over 18 years' working experience in accounting, finance and related field.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Corporate Governance Report

Summary of Duties of the Board of Directors and Various Committees

Board of Directors

The Board monitors and supervises the management, business, strategic planning and financial performance of the Group and considers that its duties are to enhance values for shareholders.

The Board is primarily responsible for making decisions in respect of the following matters:

- approval and supervision of strategic planning;
- review of financial performance and results;
- review of dividend policy;
- major acquisitions, investment, asset disposal or other significant expenditures; and
- supervision of internal risk management policy.

The Board shall be responsible for the preparation of the financial statements which give a true and fair view of the financial position of the Company and the Group and the financial results and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2006, Directors have adopted appropriate accounting policies and applied those policies consistently. Directors shall also make prudent, fair and reasonable judgment and estimation in preparing financial statements under going concern. Directors shall also be responsible for maintaining appropriate accounting records that accurately and reasonably reveal the financial position of the Group at any time.

The Board currently comprises two Executive Directors and eight Non-executive Directors (three of them are Independent Non-executive Directors). The profiles of all the Directors (including the Chairman, Chief Executive Office, Executive Directors, Non-executive Directors and Independent Non-executive Directors) are set out on pages 31 to 34 of the annual report. For the year ended 31 December 2006, Mr. Liu De Shu, Mr. Song Yu Qing, Dr. Chen Guo Gang held directorships or other positions within the group comprising Sinochem Corporation (the ultimate controlling shareholder of the Company), its subsidiaries and associated companies; Mr. Du Ke Ping and Mr. Harry Yang are Directors of Sinochem Shandong (a subsidiary of Sinochem Corporation having a 51% equity interest) and Mr. Harry Yang is also Director of US Agrichemical Corp. (a member company of Sinochem Corporation, whose business had been closed in November 2005).

Both Dr. Stephen Francis Dowdle and Mr. Wade Fetzer III are nominated by PotashCorp, the second largest shareholder of the Company. Mr. Fetzer is also a director of PotashCorp. Other than as described above, there is no other relationship among the Directors and, in particular, between the Chairman and the Chief Executive Officer.

Corporate Governance Report

The Board has delegated the day-to-day responsibility to the executive management under the instruction and supervision of the Chief Executive Officer. Mr. Liu De Shu, as the Chairman, is responsible for the leadership and effective running of the Board. Mr. Du Ke Ping, acting as the Chief Executive Officer, is responsible for effective running of the Group's business and management and implementing the policies devised by the Board.

The Company has three Independent Non-executive Directors with relevant professional qualifications or accounting expertise. In this respect, the Company has complied with Rule 3.10(1) and 3.10(2) of the Listing Rules. In compliance with Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each of the Independent Non-executive Directors confirming his independence with the Company. The Company confirmed that all the Independent Non-executive Directors are independent to the Company.

Pursuant to the existing Articles of the Company, all the Directors shall retire by rotation and be re-elected subject to the approval of shareholders at the annual general meeting. The Board has resolved that the term of office for all Non-executive Directors is fixed for two years.

For the year ended 31 December 2006, the Board held a total of four meetings to discuss the Group's financial and operation performance and other significant issues. The attendance rates of the Chairman, Mr. Liu De Shu and all other members of the Board were as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	4/4
Dr. Li Ka Cheung, Eric	2/4
Dr. Tang Tin Sek	4/4
Non-executive Directors	
Mr. Liu De Shu	4/4
Mr. Song Yu Qing	4/4
Dr. Chen Guo Gang	4/4
Dr. Stephen Francis DOWDLE	4/4
Mr. Wade Fetzer III *(i)*	4/4
Executive Directors	
Mr. Du Ke Ping	4/4
Mr. Harry Yang *(ii)*	4/4

(i) Appointed as Non-executive Director on 27 March 2006

(ii) Appointed as Executive Director on 6 March 2006

Corporate Governance Report

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee

The Audit Committee was established in 1999. Its current members are: Dr. Li Ka Cheung, Eric (Chairman), Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek.

The primary responsibilities of the Audit Committee are:

- to make recommendation to the Board on the appointment, reappointment and removal of the auditors, approve the audit and terms of engagement, and handle any issues regarding their resignation or dismissal;
- to review and monitor matters relating to the independence and objectiveness of the auditors and the effectiveness of audit procedures in accordance with the applicable standards;
- to develop and implement policies regarding the provision of non-audit services by the auditors;
- to monitor the integrity of the Group's annual report and accounts, interim report and (if proposed to issue) quarterly report, and to review significant financial reporting judgments contained in them;
- to review the financial control, internal control and risk management system of the Group;
- to discuss the internal control system with the management as to ensure that the management has discharged its duty to have an effective internal control system;
- to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- to review the financial and accounting policies and practices of the Group;
- to review the auditors' management letter, any material queries raised by the auditors to the management in respect of accounting records, financial accounts or control system and management's response; and
- to ensure that the Board will provide a timely response to the issues in the auditors' management letter.

The Audit Committee met three times for the year ended 31 December 2006. Individual attendance of each Committee member at these meetings was as follows:

	Attendance rate
Independent Non-executive Directors	
Dr. Li Ka Cheung, Eric *(Chairman)*	3/3
Mr. Ko Ming Tung, Edward	3/3
Dr. Tang Tin Sek	3/3
In Attendance:	
Chief Financial Officer	3/3
Financial Controller	3/3
The Auditors	3/3

For the year ended 31 December 2006, the Audit Committee had completed the following major work:

- Reviewed the Directors' report, financial statements, the annual report and results announcement in respect of the financial position of the Group for the year ended 31 December 2006, and recommended their approval by the Board;

- Reviewed the interim financial statements, interim report and results announcement of the Company for the six months ended 30 June 2006, and recommended their approval by the Board;

- Reviewed and discussed significant issues contained in the above;

- Recommended the appointment of auditors, the terms of its engagement and annual audit fees of the Group for the year ended 31 December 2006 to the Board;

- As at the date of this report, the Audit Committee had completed its review on the financial control, internal control and risk management system of the Group for the year ended 31 December 2006, and made sufficient communication with the management on related matters;

- Reviewed the independence of the auditors and discussed the audit service plan, scope and relevant responsibility before the commencement of audit/review works by the Auditors;

- Met with the auditors separately without the management's participation;

- Reviewed the continuing connected transactions conducted in 2006.

Corporate Governance Report

Remuneration Committee

The Remuneration Committee was established in August 2005. The Remuneration Committee currently comprises five members, three of them are Independent Non-executive Directors, namely Dr. Tang Tin Sek (Chairman), Dr. Li Ka Cheung, Eric, Mr. Ko Ming Tung, Edward and the other two members are Dr. Stephen Fransic Dowdle, a Non-executive Director and Ms. Chen Yi Qing, the Director of Human Resource of the Group.

The primary responsibilities of Remuneration Committee are:

- to make recommendations to the Board on the policy and structure of remuneration of directors and senior management and on establishment of a formal and transparent procedure for developing such remuneration policy;

- to determine the remuneration packages of all Executive Directors and senior management including benefits in kind, pension rights and compensation payments (including those in relation to loss or termination of their office or appointment), and to make recommendation to the Board on the remuneration of Non-executive Directors;

- to review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time;

- to review and approve the compensation arrangements to Executive Directors and senior management in connection with any loss or termination of their office or appointment or dismissal or removal of directors for misconduct;

- to ensure that no director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee met three times for the year ended 31 December 2006. Individual attendance of each committee member at these meetings was as follows:

	Attendance rate
Independent Non-executive Directors	
Dr. Tang Tin Sek *(Chairman)*	3/3
Dr. Li Ka Cheung, Eric	1/3
Mr. Ko Ming Tung, Edward	3/3
Non-executive Director	
Dr. Stephen Francis Dowdle	3/3
Director of Human Resources of the Group	
Ms. Chen Yi Qing	3/3

The Remuneration Committee completed the following works during the year:

- approved the compensation plan proposed by the management for 2006 for Directors and senior management;
- approved the payment of performance-based bonus to Directors and senior management in accordance with the results performance of the Group in 2005; and
- approved the proposal on granting of share options under the existing share option scheme to Directors and senior management.

Please refer to page 64 of Directors' Report for the Group's remuneration policy.

Nomination Committee

The Nomination Committee was established in August 2005. It currently comprises four members, three of them are Independent Non-executive Directors, namely Mr. Ko Ming Tung, Edward (Chairman), Dr. Li Ka Cheung, Eric, Dr. Tang Tin Sek, and the other is a Non-executive Director, Dr. Stephen Francis Dowdle.

The primary responsibilities of the Nomination Committee are:

- to review on a regular basis the structure, size and composition of the Board, and to make recommendations to the Board on any proposed change;
- to identify individual suitably qualified to become board members, select or recommend to the Board on selection of individual nominated for directorships;
- to assess the independence of Independent Non-executive Directors; and
- to make recommendations to the Board on relevant matters relating to the appointment and/or reappointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer.

Corporate Governance Report

The Nomination Committee met two times for the year ended 31 December 2006. Individual attendance of each Committee member at these meetings was as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward *(Chairman)*	2/2
Dr. Li Ka Cheung, Eric	2/2
Dr. Tang Tin Sek	2/2
Non-executive Director	
Dr. Stephen Francis Dowdle	2/2

The Nomination Committee completed the following works during the year:

- discussed and provided advice on the appointments of new Directors to the Board. In the selection process, the Nomination Committee made reference to criteria including, inter alia, reputation for integrity, accomplishment and experience that are relevant to the Group's business, professional and educational background, and commitment in respect of available time and the relevant area;

- reviewed the structure, quorum and members of the Board and provided advice to the Board;

- reviewed the independence of the Independent Non-executive Directors and provided advice to the Board.

Auditors

Deloitte Touche Tohmatsu was appointed as the Company's auditors at the annual general meeting held on 9 June 2006. The fees for audit and audit related services provided by Deloitte Touche Tohmatsu for the year ended 31 December 2006 amounted to HK$4,200,000. Save as the foregoing, Deloitte Touche Tohmatsu also provided non-audit services for the Group with an aggregate fee of HK$698,000 for the year ended 31 December 2006.

Investor Relationship and Information Disclosure

In accordance with the regulation and requirement of the regulatory authority, the Company actively accomplishes various tasks regarding information disclosure and investor relationship, and achieved great results.

The Group discloses information in a precise and legal manner on a timely basis, which is strictly in compliance with the Company's "Rules on the Management of Information Disclosure". Besides disclosing information pursuant to the requirement of the regulatory authority, the Company also manages to disclose the concerned information on time via the Company's website.

The Group attaches great emphasis on investor's relationship work, for which the senior management of the Company is directly responsible. Investor Relationship Department was established so as to maintain close contact with the investors via multiple channels. In 2006, investor relationship related tasks of the Company mainly consisted of the followings:

In April, the Company announced 2005 annual report of the Group, held press conference and analysts meeting and conducted roadshow which introduced the Company to European and Asian investors.

In September, the Company announced 2006 interim result of the Group, held press conference and analysts meeting and conducted roadshow in Hong Kong and Singapore.

Besides roadshows and results announcement, the Group participated investor meetings organized by investment banks for several times and managed to keep close contacts and smooth communications with investment and analysis institutions such as the individual analysts and fund managers through various means including one-to-one separate conference, telephone conference and small-group conference in daily business. The Company had conducted as many as 200 visits/conversations with the investment and analysis institutions through a variety of ways in 2006.

The Group has also invited investors to visit the Company's distribution network for on-site investigation and study.

Corporate Governance Report

Internal Control

The Board understands it carries the responsibility to establish and maintain effective internal control system with regular review to ensure the security of shareholder's interest and the Company's assets. During the reporting period the Board conducted reviews over the Group's internal control, which covered all significant aspects including financial, operation and compliance with regulations control, as well as risk management. The review work was assisted by KPMG Huazhen Certified Public Accountants, who had reported the assessment results to the Audit Committee.

In compliance with the requirement of the Rule C.2.1 of Code on Corporate Governance Practices contained in the Listing Rules and the Internal Control and Risk Management "A Basic Framework issued by the Hong Kong Institute of Certificate Public Accountants, the Company established and improved internal control and risk management system. The Company has founded Risk Management Committee and designed Risk Management Committee Operation Rules to standardize risk management decision and monitor mechanism. In 2006 the Company modified and improved various regulation systems and operation procedures, prepared regulation handbook and made out Internal Control and Risk Management Guidelines. These revised regulation systems and operation procedures cover all significant aspects including company governance, internal control, business operation and management supporting, which had been published for the sake of employee's compliance.

Internal Audit is responsible for the supervision of whether the internal control is enough and effective, reviewing the internal control system, audit plans and procedures. Under the independence principle and focusing on those areas of particular concern to the management, internal audit is carried out to review and supervise all the business segments of the Group, and report to the management on the efficiency and benefits of internal control and make proposals for improvement. In order to reinforce management supervision, the Company set up respective anti-corruption and reporting administrative system to strictly prohibit the breach of law, regulation and other prejudice to the Company's interest.

The Board and management always attaches top priorities on internal control system improvements. The results of the Company's internal control work were recognized by the Board, and meanwhile laying a solid foundation for continued optimization in 2007.

Financial Management

Being an essential content of corporate governance, the Company continues to pay attention to the persistent betterment of financial management. In 2006 the Company continued to improve internal performance assessment, consolidate fund management for the distribution network, enhance the quality and effectiveness of accounting work via information measures and re-arrangement and perfection of regulation and procedures. All of which found a sound basis of financial management and enhanced management for the gradual development of the Company's strategy implementation and business expansion.

Corporate Governance Report

In 2006 the Company completed performance assessment system design and review work for every business department, specific KPI was set up and reviewed regularly to improve strategy implementation in each business department which would ensure fulfillment of the strategy for the Company. Along with performance assessment system, the Company established internal clearance system which calculates capital cost for every business department based on capital use. It provides data for assessment work and enhances capital cost consciousness for various product lines.

In 2006 the Company implemented a Cash Management Platform (CMP) jointly developed with Agricultural Bank of China, on which the Company realized in-time remit, on-time check and convenient deposit within the network. The Company increased capital turnover rate, reduced commission charge and effectively lowered proceeding risk in the grass-roots level of distribution network while meeting business expansion need. The connection with CMP and DMS (Distribution Management System) consolidates distribution network logistics and the basis of vertical capital management.

In 2006 the Company enhanced quality and efficiency of basic accounting work and information disclosure work via information technology used in accounting and financial statements consolidation. A new financial system was adopted through re-arrangement, abolishment and revision of old systems to improve financial management system and provide standards for financial activities. In the aspect of risk control, the Company improved efficiency by more fluent communication among front, middle and back lines through accounting procedure update. In addition, with new recruits and on-the-job training, the Company also enhanced professional and management skills of the financial staff, which has provided human resources guarantee for the normal operation of the financial system and financial management improvement.

Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuers ("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.

Compliance with the Code on Corporate Governance Practices

The Company has established Audit Committee and Remuneration Committee in compliance with Appendix 14-Code on Corporate Governance Practices to the Listing Rules (the "Code on Corporate Governance Practices"), established Nomination Committee in line with the best practice contained in Code on Corporate Governance Practices, and set out written terms of reference.

The Directors believed that the Company has fully complied with the provisions in the Code on Corporate Governance Practices for the year ended 31 December 2006.

Corporate Governance Report

Safety, Health and Environment

The Company has been dedicating huge efforts on corporate safety, occupational health and environmental protection (SHE). And this is performed in align with our corporate strategy upon the planning, implementation and development stages. We uphold the safety culture and belief of "Safety first, Priority in prevention, Superior according to regulations, Technological advance leads to safety". We provide environmental friendly products with high quality and services to China, in order to achieve simultaneous improvements in both economic benefits and corporate safety, occupational health and environmental protection.

1. ***Carry out the establishment of the SHE system in upstream joint venture production enterprises***

   Promoted construction of ISO14000 (Environment Management System), OHSMS28000 (Occupational Health and Safety Management System) and OHSAS18000 (Occupational Health Safety Assessment System) in subsidiary companies like Sinochem Zhisheng, Sinochem Fuling and established SHE system.

2. ***Adhere to the policy of "Priority in Prevention" to improve the Safety Warning Mechanism***

   Through the implementation of Advance Evaluation of Safety Risks and Regular Special Check-ups, we established the Source of Huge Crisis Management System, improve the Safety Warning Mechanism, and enhanced our ability of safety protection. In the year 2006, there had been no large or severe accidents occurred in the production processes in our subsidiary companies.

3. ***Implement System of accountability to environmental protection to achieve reduction of emissions***

   The production enterprises implemented system of accountability to environmental protection, in order to control the total amounts of contaminants being emitted. This helps the production enterprises to achieve the standard level of emissions and to reduce the level of emissions. In the year 2006, there had been no large or severe incidents of contamination or environmental damage.

4. ***Reasonably allot use of energy to achieve energy saving and wastage reducing***

   The production enterprises paid attention to the harmony of energy using and production control and improved the level of consolidated use of resources through wastage benchmark of unit output implementation and technology advance. Sinochem Fuling re-used waste water and realized zero-to-be emission through diluted acid circulation system improvement. Through operation rate increase and technology advance, at Sinochem Fuling, water consumption and steam consumption reduced 15.2% and 9.5% per unit output, respectively.

Directors' Report

The Directors are pleased to present their report together with the consolidated financial statements of the Group for the year ended 31 December 2006.

Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group are the production, import and export, distribution and retail of fertilizer raw materials and finished products, and technical research and development and services relating to the fertilizer business and products.

An analysis of the Group's performance for the year by business segment is set out in note 7 to the consolidated financial statements.

Major Customers and Suppliers

The total sales attributable to the Group's five largest customers were less than 30% of the Group's total sales for year 2006.

The total purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases for year 2006.

Save for the foregoing, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the five largest customers or suppliers. PotashCorp holds one-third equity interest in one of the five largest suppliers of the Group, while Sinochem Corporation holds equity interest in another company amongst the five largest suppliers of the Group.

Results and Appropriations

The results of the Group for the year are set out in the Consolidated Income Statement on page 67.

The Directors proposed the payment of final dividend of 2.31 HK cents per share for the financial year ended 31 December 2006, making a total of dividend payment of HK$134,437,000.

Closure of Register of Members

The Register of Members will be closed from 22 June 2007 to 28 June 2007, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfer must be lodged with the Company's branch registrar in Hong Kong, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 21 June 2007.

It is expected that the relevant dividend will be payable to those entitled on or about 6 July 2007 subject to the shareholders' approval in the annual general meeting of the Company to be held on 28 June 2007.

Directors' Report

Reserves

Movements in the reserves of the Group during the year are set out from pages 70 to 71 in the Consolidated Statement of Changes in Equity.

Share Capital

There was no movement in the share capital of the Company during the year.

Distributable Reserves

As at 31 December 2006, the distributable reserves of the Company amounted to HK$137,372,000.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 131.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year ended on 31 December 2006 are set out in note 17 to the consolidated financial statements.

Donations

The Company made no charitable donation for the year ended 31 December 2006.

Principal Property

Details of the Group's principal property held for investment purposes are set out on page 131.

Purchase, Sale or Redemption of Listed Securities

The Company had not redeemed any of the Company's listed securities during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

Major Discloseable Events

Note: *Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies involved in this section shall have the same meanings assigned to them in the circulars and the related announcements.*

Sinochem HK had completed the Placing and the sale of the Option Shares to the Investor (PotashCorp) on 9 February 2006 and 24 February 2006 respectively. As a result, Sinochem HK and the Investor are currently interested in approximately 53.53% and 20% of the Company's issued ordinary share capital respectively and approximately 26.47% of the issued Shares are held by the public in compliance with the public float requirements under Rule 8.08 of the Listing Rules. For detailed information in this regard, please refer to the announcements respectively issued by the Company on 27 January 2006, 6 February 2006 and 24 February 2006.

In July 2006, the Company issued the zero-coupon Convertible Bonds in the principal amount of HK$1,300,000,000, which will be due on 23 July 2011 and the initial Conversion Price was HK$3.74 (subject to adjustment). Based on the initial Conversion Price, the Bonds will be convertible into 347,593,583 Conversion Shares, representing approximately 5.98% of the issued share capital of the Company as at the issue date and approximately 5.65% of the enlarged issued share capital of the Company. The Conversion Shares will rank pari passu in all respects with the Shares in issue. For detailed information in this regard, please refer to the announcement issued by the Company on 21 July 2006.

In addition, for the year ended 31 December 2006, the Company had neither issued any new ordinary shares upon the exercise of the conversion right of the Bonds, nor redeemed any of the Convertible Bonds.

On 16 November 2006, the Special General Meeting of the Company approved that the name of the Company be changed from "Sinochem Hong Kong Holdings Limited" to "Sinofert Holdings Limited" and, for identification purposes only, a new Chinese name of "中化化肥控股有限公司" had also been adopted by the Company to replace the existing Chinese name of "中化香港控股有限公司". With effect from 14 December 2006, the shares of the Company were traded under a new name. The English stock short name of the Company was changed from "SINOCHEM HK" to "SINOFERT" and the Chinese stock short name was changed from "中化香港控股" to "中化化肥". The stock code of the Company of "297" remains unchanged. For detailed information in this regard, please refer to the Circular dated 20 October 2006 and the announcement on 11 December 2006.

Utilization of the fund financed

In 2006 the Company issued convertible bonds from which net proceeds of HK$1.27 billion was received (please refer to the announcement of the Company dated 21 July 2006 for details). As disclosed in the announcement, the above-mentioned proceeds shall be primarily used in the production of fertilizers for the Group and in expanding the distribution network, and the remaining for general purposes. As at 31 December 2006, HK$538 million out of the above proceeds was used for fertilizer production, HK$21 million was used for expanding distribution network, and the remaining amount for general purposes of the Company.

Connected Transactions

Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies involved in this section shall have the same meanings assigned to them in the circulars and the related announcements.

For the year ended 31 December 2006, the Group had the following transactions which constitute connected transactions under the Listing Rules of Hong Kong Stock Exchange (hereinafter referred to as "Listing Rules") and are hereby disclosed pursuant to the Chapter 14A of the Listing Rules.

1. The New Connected Transactions in 2006

The Company had disclosed in its 2005 Annual Report the connected transactions for the year ended 31 December 2005, which were subject to reporting, announcement and/or independent shareholders' approval under the Chapter 14A of the Listing Rules. From 1 January 2006 to 31 December 2006, the Group conducted the following new connected transactions subject to reporting, announcement and/or independent shareholders' approval under the Chapter 14A of the Listing Rules:

(1) Continuing Connected Transactions for the Logistics Services: (1) SF Service Agreement between Sinochem Fertilizer and Tianjin Beihai; (2) Tianjin Beifang Service Agreement between Tianjin Beifang and Tianjin Beihai

On 21 February 2006, Sinochem Fertilizer and Tianjin Beifang entered into the SF Service Agreement and Tianjin Beifang entered into the Tianjin Beifang Service Agreement with Tianjin Beihai respectively, pursuant to which Tianjin Beihai will provide logistics services to Sinochem Fertilizer and Tianjin Beifang in relation to its fertilizers at the port of Tianjin. The SF Service Agreement and the Tianjin Beifang Service Agreement, when aggregated as if they were one transaction pursuant to the Listing Rules, constituted a continuing connected transaction of the Company and were subject to the reporting and announcement requirements, but were exempted from the independent shareholders' approval requirements under the Listing Rules.

The annual caps for the transactions for the three years ending 31 December 2008 are RMB84,000,000, RMB126,000,000 and RMB170,000,000.

For detailed information upon the aforesaid transaction, please refer to the announcement issued by the Company on 24 February 2006.

(2) Continuing Connected Transactions between Sinochem Macao and Canpotex Limited for Importing Canadian Potash

Upon completion of the sale and purchase of the Option Shares by Potash Corporation of Saskatchewan Inc. (the "Investor") respectively on 9 February 2006 and 24 February 2006 (For detailed information, please refer to the announcements issued by the Company on 27 January 2006, 6 February 2006 and 24 February 2006.), the Investor became a substantial shareholder, and therefore a connected person, of the Company. Hence, the ongoing transactions relating to the sales and purchase of fertilizer products between the Investor's associate (as defined in the Listing Rules) ("Canpotex Limited") and a member of the Group ("Sinochem Macao") will constitute continuing connected transactions for the Company.

The annual cap for such transactions for the year ending 31 December 2006 was US$432,400,000 (approximately equivalent to HK$ 3,372,720,000).

For detailed information, please refer to the announcement issued by the Company on 9 March 2006.

(3) Continuing Connected Transactions between Sinochem Macao and Canpotex International Pte. Limited (on behalf of Canpotex Limited) for Importing Canadian Potash

On 10 April 2006, Sinochem Macao entered into the MOU in respect of certain ongoing transactions with Canpotex International Pte. Limited (on behalf of Canpotex Limited) under which, subject to the terms and conditions of the MOU, Canpotex Limited will supply Canadian potash to Sinochem Macao during the three year period from 1 January 2007 to 31 December 2009. The proposed annual caps for the transactions under the MOU are HK$4,300,000,000, HK$5,300,000,000 and HK$6,300,000,000 for the three years ending 31 December 2009 respectively. The transactions contemplated under the MOU constitute continuing connected transactions of the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For the detailed information, please refer to the announcements issued by the Company respectively on 20 April 2006, 9 June 2006 and the Circular dated 25 May 2006.

(4) Continuing Connected Transactions between Sinochem Fertilizer and Sinochem Shandong for the supply of fertilizer related products and raw materials

On 6 June 2005, Sinochem Fertilizer and Sinochem Shandong entered into the Old Shandong Supply Agreement pursuant to which Sinochem Fertilizer shall supply potash fertilizers to Sinochem Shandong. The Old Shandong Supply Agreement constituted a continuing connected transaction of the Company under Rule 14A.16(5) of the Listing Rules subject to reporting, announcement and independent shareholders' approval requirements. These transactions and the related annual caps were disclosed in the Circular dated 13 June 2005 and the announcement of the Company dated 10 June 2005 and approved by the independent shareholders of the Company at its special general meeting ("SGM") held on 5 July 2005.

Directors' Report

Apart from the potash fertilizers agreed to be supplied by Sinochem Fertilizer to Sinochem Shandong under the Old Shandong Supply Agreement, Sinochem Shandong would also require Sinochem Fertilizer to supply to it other fertilizer related products and raw materials due to an expansion in its business. As disclosed in the Circular dated 13 June 2005 and the announcement of the Company dated 10 June 2005, the maximum annual caps of the purchase price payable by Sinochem Shandong to Sinochem Fertilizer under the Old Shandong Supply Agreement for the two years ending 31 December 2007 would not exceed RMB209,520,000 and RMB383,760,000 respectively. The Independent Shareholders of the Company had duly approved at the SGM on 9 June 2006 that the total annual transaction values arising from the supply of fertilizer related products and raw materials by Sinochem Fertilizer to Sinochem Shandong for the two years ending 31 December 2007 be increased to RMB424,600,000 and RMB508,600,000 respectively.

For the detailed information, please refer to the announcements issued by the Company respectively on 28 April 2006, 9 June 2006 and the Circular dated 25 May 2006.

(5) Continuing Connected Transactions for provision of port services to Sinochem Fertilizer by Qingdao Gangxing

Qingdao Gangxing is held as to approximately 27% by Rillfung, 13.5% by Sinochem International, 39.7% by 青島港(集團)有限公司 (Qingdao Gang (Group) Company Limited), 10% by 中農調運公司(Zhongnong Transportation Company) and 9.8% by 中農天津公司 (Zhongnong Tianjin Company). Rillfung and Sinochem International, two subsidiaries of Sinochem Corporation, collectively hold an approximately 40.5% interest in Qingdao Gangxing. Accordingly, Qingdao Gangxing constitutes an associate of Sinochem Corporation, the ultimate controlling shareholder of the Company, and a connected person of the Company within the meaning of the Listing Rules.

On 21 April 2006, Sinochem Fertilizer and Qingdao Gangxing entered into the Qingdao Port Service Agreement pursuant to which Qingdao Gangxing will provide logistics, packaging, customs clearance, storage and other related services to Sinochem Fertilizer in relation to its fertilizers at the port of Qingdao in return for the payment of certain fees by Sinochem Fertilizer. The transactions constitute continuing connected transactions of the Company subject to the reporting, announcement requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Maximum annual caps for the three years ending 31 December 2008 are respectively RMB12,000,000, RMB15,000,000 and RMB18,000,000.

For detailed information, please refer to the announcement issued by the Company on 28 April 2006.

(6) Connected Transactions Between (i) Beijing Sinochem Tianji Trading Co. Ltd and Tianji Sinochem for purchasing fertilizer products; (ii) Beijing Sinochem Tianji Trading Co. Ltd and Tianji Coal for purchasing fertilizer products

Beijing Sinochem Tianji Trading Co. Ltd ("Sinochem Tianji Trading") is an indirect non-wholly owned subsidiary of the Company, held as to 60% by Sinochem Fertilizer and 40% by Tianji Coal. Tianji Sinochem is an associate of Sinochem Corporation and a connected person of the Company within the meaning of the Listing Rules. In addition, Tianji Sinochem also constitutes an associate of Tianji Coal, and Tianji Sinochem will therefore also be a connected person of the Company within the meaning of the Listing Rules by reason of that relationship. Shortly after the establishment of Sinochem Tianji Trading, Sinochem Tianji Trading and Tianji Sinochem entered into the Tianji Gaoping Distribution Agreement pursuant to which, subject to the terms and conditions of this agreement, Sinochem Tianji Trading had been granted a right to sell the fertilizer products produced by Tianji Sinochem and the related raw materials in the PRC.

In addition, shortly after the establishment of Sinochem Tianji Trading, Sinochem Tianji Trading and Tianji Coal entered into the Tianji Coal Distribution Agreement pursuant to which, subject to the terms and conditions of this agreement, Sinochem Tianji Trading had been granted an exclusive right to sell the fertilizer products produced by Tianji Coal and the related raw materials in the Shandong and Jiangsu provinces in the PRC.

Given that the transactions under the Tianji Gaoping Distribution Agreement and Tianji Coal Distribution Agreement formed part of a series of transactions arising from the overall joint venture arrangement described above, these transactions were aggregated and treated as if they were one transaction pursuant to Rule 14A.25 of the Listing Rules. The proposed annual caps for all such transactions combined are RMB481,000,000, RMB962,000,000 and RMB1,047,000,000 for the three years ending 31 December 2008 respectively.

The above-said transactions had been duly approved by the independent Shareholders at the SGM on 9 June 2006. For the detailed information, please refer to the announcements issued by the Company respectively on 28 April 2006, 9 June 2006 and the Circular dated 25 May 2006.

Directors' Report

(7) Connected Transactions between Sinochem Fertilizer and Beijing Sinochem Tianji Trading Co., Ltd for purchasing fertilizer products.

Tianji Sinochem is held as to 40% by Sinochem Corporation and 60% by Tianji Coal. Tianji Coal, being the holding company of Tianji Sinochem, is therefore an associate of Sinochem Corporation which is a substantial shareholder of the Company. Sinochem Tianji Trading had become an indirect non-wholly owned subsidiary of the Company and is held as to 40% by Tianji Coal, an associate of a substantial shareholder of the Company and therefore a connected person at the level of the Company. Shortly after the establishment of Sinochem Tianji Trading, Sinochem Tianji Trading and Sinochem Fertilizer entered into the Beijing Procurement Agreement pursuant to which Sinochem Fertilizer will purchase fertilizer related products and raw materials from Sinochem Tianji Trading at a fair market price in the PRC.

The maximum annual caps for the three years ending 31 December 2008 are RMB481,000,000, RMB962,000,000 and RMB1,047,000,000 respectively.

The above-said transactions had been duly approved by the independent Shareholders at the SGM on 9 June 2006. For the detailed information, please refer to the announcements issued by the Company respectively on 28 April 2006, 9 June 2006 and the Circular dated 25 May 2006.

2. The annual caps approved for the connected transactions and the actual transacted amount in the year 2006 are set out below:

Subject to Independent Shareholders' Approval Requirements			Currency	Effective Period	Approved Annual Caps in 2006 *in thousand*	The Actual Transacted Amounts in 2006 *in thousand*
(1)	Import Service Framework Agreement – Sinochem Corporation imported from Sinochem Macao		USD	2005 to 2007	1,442,683	788,526
(2)	Import Service Framework Agreement – Sinochem Fertilizer purchased from Sinochem Corporation		RMB	2005 to 2007	12,180,000	5,344,668
(3)	Sinochem Macao purchased from US Agri-chem		USD	2005 to 2007	69,000	0
(4)	Sinochem Fertilizer purchased from Sinochem Shandong		RMB	2005 to 2007	925,100	438,160
(5)	Sinochem Fertilizer sold to Sinochem Shandong (The transacted products and caps had been enlarged, please refer to the announcement dated 28 April 2006)		RMB	2005 to 2007	424,600	65,118
(6)	Canpotex International Pte. Limited (on behalf of Canpotex Limited) Sinochem Macao imported Canadian potash from Canpotex Limited (Please refer to the announcements on 9 March and 20 April 2006)		USD	2004 to 2006	432,400	199,149
(7)	(i)	Beijing Sinochem Tianji Trading Co., Ltd purchased from Tianji Sinochem (Please refer to the announcement on 28 April 2006)	RMB	2006 to 2008	481,000	94,802
	(ii)	Beijing Sinochem Tianji Trading Co., Ltd purchased from Tianji Coal (Please refer to the announcement on 28 April 2006)				
(8)	Sinochem Fertilizer purchased from Beijing Sinochem Tianji Trading Co., Ltd (Please refer to the announcement on 28 April 2006)		RMB	2006 to 2008	481,000	94,802

Directors' Report

	Exempt from Independent Shareholders' Approval Requirements but subject to Reporting and Announcement Requirements	Currency	Effective Period	Approved Annual Caps of Year 2006 *in thousand*	The Actual Transacted Amounts Term Year 2006 *in thousand*
(9)	Qingdao Gangxing provided port services to Sinochem Fertilizer (Please refer to the announcement on 28 April 2006)	RMB	2006 to 2008	12,000	3,899
(10)	Sinochem UK provided supplier relations and logistics services to Sinochem Macao	USD	2005 to 2007	2,000	1,771
(11)	US Chem Resources, Inc. provided supplier relations and logistics services to Sinochem Macao	USD	2005 to 2007	2,000	0
(12)	Tianjin Port provided port services to Tianjin Beifang	RMB	2005 to 2007	75,000	72,566
(13)	Sinochem Zhisheng provided sales services to the Yongan Zhisheng	RMB	2005 to 2007	130,626	1,380
(14)	Yongan Zhisheng supplied raw materials to Sinochem Zhisheng	RMB	2005 to 2007	63,968	39,443
(15)	(i) Tianjin Beihai provided port services to Sinochem Fertilizer (Please refer to the announcement on 24 February 2006); and (ii) Tianjin Beihai provided packing services to Tianjin Beifang (Please refer to the announcement on 24 February 2006)	RMB	2006 to 2008	84,000	8,728

3. Confirmation from Independent Non-Executive Directors

The Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors.

In the opinion of the independent non-executive directors, the continuing connected transactions for the year ended 31 December 2006 were entered into by the Group:

(i) in the ordinary and usual course of its business;

(ii) either on normal commercial terms or, where there are no sufficient comparables, on terms no less favorable than the terms the Company could have obtained from an independent third party; and

(iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Contracts of Significance between the Company and the Controlling Shareholder

Sinochem Corporation is the ultimate controlling shareholder of the Company. The contracts of significance between Sinochem Corporation and the Company mainly include the agreements in relation to the connected transactions arising out of the reverse acquisition of the Fertilizer Group by the Company and the Non-competition Undertaking Sinochem Corporation has provided to the Company. With regard to the arrangements for the connected transactions and the non-competition commitment, please refer to the section headed “Information on the Fertilizer Group – Relationship between the Enlarged Group and the Sinochem Group” in the 2005 annual report and Circular dated 13 June 2005.

With regard to the arrangements for the connected transactions between controlling shareholder and its controlling stake companies and jointly controlled companies, the Company has provided detailed information in the section headed “Connected Transactions” in the Directors’ Report.

Directors' Report

Directors

The directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Du Ke Ping *(Chief Executive Officer)*	
Mr. Harry Yang	(appointed on 6 March 2006)
Ms. Chen Hao	(resigned on 6 March 2006)

Non-Executive Directors

Mr. Liu De Shu *(Chairman)*	
Mr. Song Yu Qing *(Deputy Chairman)*	
Dr. Chen Guo Gang	
Dr. Stephen Francis Dowdle	
Mr. Wade Fetzer III	(appointed on 27 March 2006)

Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward
Dr. Li Ka Cheung, Eric
Dr. Tang Tin Sek

Directors' Service Contracts

The Board of Directors comprises 10 directors. Except two executive directors, none of the other directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Mr. Du Ke Ping, Executive Director and CEO of the Company, has entered into a director's service contract with the Company for a term of 3 years, with effect from 28 July 2005, subject to that (i) the service contract may be terminated prior to its expiry if either of Mr. Du or the Company serves two months' prior notice to the other in writing; (ii) the service contract may be terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the service contract. Should the Company terminate the contract prior to its expiry, Mr. Du Ke Ping is entitled to receive a cash compensation equivalent to 11 months' of his annual fixed director's fee, save for circumstances described in Item (ii) set out above.

Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, has entered into a director's service contract with the Company for a term of 3 years, with effect from 6 March 2006, subject to that (i) the service contract may be terminated prior to its expiry if either of Mr. Yang or the Company serves two months' prior notice to the other in writing; (ii) the service contract may be terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the service contract. Should the Company terminate the contract prior to its expiry, Mr. Harry Yang is entitled to receive a cash compensation equivalent to 11 months' of his annual fixed director's fee, save for circumstances described in Item (ii) set out above.

For details of remunerations including the share options granted to the directors during the year, please refer to the relevant sections of the Directors' Report and Notes 12 and 35 to the consolidated financial statements.

Directors' Interests in Contracts of Significance

Save for the above directors' contracts, neither the Company nor any of its subsidiaries had entered, at the end of the year or at any time during the year, into any contract of significance which is still in force, and in which a director of the Company had a material interest, whether directly or indirectly.

Directors' Interests in Competing Business

During the year and up to the date of this report, Mr. Du Ke Ping, an executive director and chief executive officer of the Company, is also a director of Sinochem Shangdong, a 51% subsidiary of Sinochem Corporation. Mr. Harry Yang, who was appointed an executive director of the Company with effect from 6 March 2006, was also a director of US Agri-Chemicals Corporation during the year ended 31 December 2006.

As described in the circular dated 13 June 2005, Sinochem Shangdong and US Agri-Chemicals Corporation are members of the Sinochem Corporation for which the former continues to be engaged in the production of fertilizers while the latter has ceased its operations since November 2005. As at the date of this report, four out of eleven of the directors of Sinochem Shangdong are also directors or members of the senior management of the Group and the remaining directors of Sinochem Shangdong do not hold any position or assume any role in the Group. As at the date of this report, save for Mr. Du Ke Ping and Mr. Harry Yang, none of the directors of US Agri-Chemicals Corporation held any position or assume any role in the Group.

Save as disclosed, as at the date of this report, none of the directors of the Company and their respective associates has any interests 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.

Profiles of Directors and Senior Management

Profiles of directors and senior management are set out on pages 31 to 35.

Directors' Interests in the Shares

As at 31 December 2006, none of the directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (i) had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive were taken or deemed to have under such provisions of the SFO) or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed under the heading "The Share Option Scheme and Its Granting", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

For details of the share options granted to the directors in 2006, please refer to the relevant sections of the Directors' Report.

Directors' Report

Substantial Shareholders' Interests in the Shares and Underlying Shares of the Company

As at 31 December 2006, the following persons (other than directors and chief executive of the Company) had interests in the shares and underlying shares of the Company which were recorded in the register of interests required to be maintained by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Long Positions of the Company's ordinary shares (Nominal value HK$0.1 Per Share) Number of shares involved	Approximate percentage of shareholding
Sinochem Hong Kong (Group) Company Limited	4,270,453,301 *(Note 1)*	73.53%
Sinochem Corporation *(Note 2)*	4,270,453,301	73.53%
PCS (Barbados) Investment Company Limited	4,270,453,301 *(Note 3)*	73.53%
Potash Corporation of Saskatchewan Inc. *(Note 4)*	4,270,453,301	73.53%

Notes:

(1) The number of ordinary shares consists of (a) 3,890,239,114 ordinary shares owned by Sinochem HK and (b) 580,214,187 ordinary shares owned by PCS (Barbados) Investment Company Limited, a wholly-owned subsidiary of Potash Corporation of Saskatchewan Inc. in which Sinochem HK is deemed to have an interest under the provisions of the SFO.

(2) Sinochem Corporation is taken to be interested in the ordinary shares of the Company in which Sinochem HK, its wholly-owned subsidiary, holds an interest.

(3) The number specified consists of (a) 1,161,589,966 ordinary shares owned by PCS (Barbados) Investment Company Limited and (b) 3,108,863,335 ordinary shares owned by Sinochem HK in which Potash Corporation of Saskatchewan Inc. is deemed to have an interest under sections 317 and 318 of the SFO.

(4) Potash Corporation of Saskatchewan Inc. is taken to be interested in the ordinary shares of the Company in which PCS (Barbados) Investment Company Limited, its wholly-owned subsidiary, holds an interest.

Public Float

Based on information publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has sufficient public float exceeding 25% of its issued shares as required by the Listing Rules.

Pre-emptive Rights

There has no requirement for pre-emptive rights set out in the Bye-laws of the Company and the laws of Bermuda which result in new shares offering made by the Company to the existing shareholders by proportion.

The Share Option Scheme and Its Granting

The Company, pursuant to the Share Option Scheme, offered share options to the eligible participants on 23 January 2006, and the details are as follows:

Grantees	**Exercisable Period** *(Note 3)*	**Exercise Price** *(HK$)*	**Number of Share Options Awarded this Year**	**Forfeited**	**Number of Share Options Held at 31 December 2006** *(Note 3)*
Mr. Liu De Shu *(Note 1)*	23 January 2008 – 2 January 2012	1.672	2,033,000	–	2,033,000
Mr. Song YU Qing *(Note 1)*	23 January 2008 – 2 January 2012	1.672	1,582,000	–	1,582,000
Mr. Du Ke Ping *(Note 2)*	23 January 2008 – 2 January 2012	1.672	5,213,000	–	5,213,000
Dr. Chen Guo Gang (Note 1)	23 January 2008 – 2 January 2012	1.672	1,582,000	–	1,582,000
Mr. Harry Yang *(Note 2)*	23 January 2008 – 2 January 2012	1.672	1,582,000	–	1,582,000
Employees	23 January 2008 – 2 January 2012	1.672	18,018,000	(1,565,000)	16,453,000
			30,010,000	(1,565,000)	28,445,000

Notes:

(1) Non-executive Director of the Company

(2) Executive Director of the Company

(3) During the period between 23 January 2008 and 22 January 2009, only two-third of the options are exercisable and the remaining balance of options are exercisable from 23 January 2009 to 22 January 2012.

Compensation Policy

The Group's compensation policy comprises basic salary, annual bonus, benefits and long-term incentive award. 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 achieving 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 varies with importance of duties, giving bonus in connection with performance directly proportional to the importance of duties, so as to ensure that the Group can recruit, retain and motivate high-caliber candidates required for the development of the Group and avoid excess reward. The Group reviews its compensation policy annually and engages professional intermediary if necessary so as to ensure the competitiveness of the compensation policy which, in turn, would support the business growth of the Group. No individual employee shall have the right to determine his/her own compensation.

Housing Funds

The Group contributes to housing funds for its employees strictly in compliance with relevant regulations of the region where the Group's business operates.

Auditors

PricewaterhouseCoopers acted as the auditors of the Company in respect of the financial year ended 31 December 2005. At the annual general meeting of the Company held on 9 June 2006, PricewaterhouseCoopers retired as the auditors of the Company and Deloitte Touche Tohmatsu was appointed as the new auditors of the Company.

By Order of the Board

Liu De Shu
Chairman

Hong Kong, 12 April 2007

Independent Auditor's Report

Deloitte.
德勤

TO THE SHAREHOLDERS OF SINOFERT HOLDINGS LIMITED
(FORMERLY KNOWN AS SINOCHEM HONG KONG HOLDINGS LIMITED)
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 67 to 130, which comprise the consolidated balance sheet as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

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

Independent Auditor's Report

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 12 April 2007

Consolidated Income Statement

	Notes	For the year ended 31 December 2006 HK$'000	2005 HK$'000
Turnover	7	**21,126,571**	19,248,665
Cost of sales		**(19,419,304)**	(17,705,872)
Gross profit		**1,707,267**	1,542,793
Other income	8	**126,407**	67,701
Selling and distribution expenses		**(535,249)**	(394,898)
Administrative expenses		**(187,268)**	(223,204)
Other expenses		**(19,597)**	–
Share of results of jointly controlled entities	20	**41,037**	49,941
Finance costs	9	**(128,624)**	(112,376)
Profit before taxation		**1,003,973**	929,957
Income tax expense	10	**(99,191)**	(137,533)
Profit for the year	11	**904,782**	792,424
Attributable to:			
Equity shareholders of the Company		**896,246**	779,421
Minority interests		**8,536**	13,003
		904,782	792,424
Dividend			
– Proposed	14	**134,437**	116,913
– Paid		**116,740**	–
Earnings per share	15		
Basic		**HK15.43 cents**	HK14.49 cents
Diluted		**HK15.41 cents**	HK14.49 cents

Consolidated Balance Sheet

	Notes	At 31 December **2006** ***HK$'000***	2005 *HK$'000*
Non-current Assets			
Investment properties	*16*	**14,532**	160,000
Property, plant and equipment	*17*	**900,986**	726,510
Prepaid lease payments	*18*	**106,766**	41,924
Mining right	*19*	**23,648**	22,839
Interests in jointly controlled entities	*20*	**381,656**	367,861
Available-for-sale investments	*21*	**290,419**	14,462
Goodwill	*22*	**356,503**	356,503
Deferred taxation assets	*33*	**9,422**	2,094
		2,083,932	1,692,193
Current Assets			
Inventories	*24*	**4,364,565**	4,798,149
Prepaid lease payments	*18*	**2,233**	–
Trade and bills receivable	*25*	**1,272,357**	846,710
Advance payments and other receivables	*32*	**1,293,856**	453,839
Amount due from ultimate holding company	*26*	**41,765**	–
Bills discounted to banks	*27*	**1,364,806**	1,417,893
Pledged bank deposits	*28*	**6,287**	–
Bank balances and cash	*28*	**79,274**	66,551
		8,425,143	7,583,142
Current Liabilities			
Trade and bills payable	*29*	**1,815,256**	2,448,312
Receipts in advance and other payables	*32*	**939,177**	417,284
Bank advances for discounted bills	*32*	**1,366,647**	1,417,893
Derivative financial liabilities	*30*	**86,457**	–
Taxation payable		**47,791**	50,608
Borrowings	*31*	**99,118**	1,025,052
		4,354,446	5,359,149
Net Current Assets		**4,070,697**	2,223,993
Total Assets less Current Liabilities		**6,154,629**	3,916,186

Consolidated Balance Sheet

		At 31 December	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Non-current Liabilities			
Convertible loan notes	*30*	**1,220,407**	–
Borrowings	*31*	**363,152**	234,088
Deferred taxation liabilities	*33*	**27,099**	21,385
		1,610,658	255,473
Net assets		**4,543,971**	3,660,713
Equity			
Issued equity	*34*	**767,766**	767,766
Reserves		**3,580,586**	2,706,892
Equity attributable to shareholders of the Company		**4,348,352**	3,474,658
Minority interests		**195,619**	186,055
Total Equity		**4,543,971**	3,660,713

The consolidated financial statements on pages 67 to 130 were approved and authorised for issue by the Board of Directors on 12 April 2007 and are signed on its behalf by:

Liu De Shu	**Du Ke Ping**
Director	*Director*

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Issued equity	Merger reserve	Capital reserve	Statutory reserves	Investment revaluation reserve	Share option reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Note a)	*(Note b)*	*(Note c)*							
At 1 January 2005	78	245,632	270,225	272,664	–	–	105	1,112,162	1,900,866	155,436	2,056,302
Exchange differences arising on translation of foreign operations, recognised directly in equity	–	–	–	–	–	–	26,683	–	26,683	3,684	30,367
Profit for the year	–	–	–	–	–	–	–	779,421	779,421	13,003	792,424
Total recognised income for the year	–	–	–	–	–	–	26,683	779,421	806,104	16,687	822,791
Issue of ordinary share, net of issuing expense	482,325	–	–	–	–	–	–	–	482,325	–	482,325
Acquisition of subsidiaries	285,363	–	–	–	–	–	–	–	285,363	9,136	294,499
Contribution from owner	–	–	–	–	–	–	–	–	–	10,208	10,208
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(5,412)	(5,412)
Transfer	–	–	–	6,114	–	–	–	(6,114)	–	–	–
At 31 December 2005	767,766	245,632	270,225	278,778	–	–	26,788	1,885,469	3,474,658	186,055	3,660,713
Surplus on revaluation of available-for-sale investments	**-**	**-**	**-**	**-**	**40,106**	**-**	**-**	**-**	**40,106**	**-**	**40,106**
Deferred taxation liability arising on revaluation of available-for-sale investments	**-**	**-**	**-**	**-**	**(13,235)**	**-**	**-**	**-**	**(13,235)**	**-**	**(13,235)**
Exchange differences arising on translation of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**61,896**	**-**	**61,896**	**7,034**	**68,930**
Total income recognised directly in equity	**-**	**-**	**-**	**-**	**26,871**	**-**	**61,896**	**-**	**88,767**	**7,034**	**95,801**
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**896,246**	**896,246**	**8,536**	**904,782**
Total income recognised for the year	**-**	**-**	**-**	**-**	**26,871**	**-**	**61,896**	**896,246**	**985,013**	**15,570**	**1,000,583**

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Issued equity HK$'000	Merger reserve HK$'000 (Note a)	Capital reserve HK$'000 (Note b)	Statutory reserves HK$'000 (Note c)	Investment revaluation reserve HK$'000	Share option reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
Recognition of equity-settled share-based payments	**-**	**-**	**-**	**-**	**-**	**5,421**	**-**	**-**	**5,421**	**-**	**5,421**
Dividend paid	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(116,740)**	**(116,740)**	**-**	**(116,740)**
Dividend paid to minority shareholders	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(2,180)**	**(2,180)**
Disposal of subsidiaries	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3,826)**	**(3,826)**
Transfer	**-**	**-**	**-**	**25,170**	**-**	**-**	**-**	**(25,170)**	**-**	**-**	**-**
At 31 December 2006	**767,766**	**245,632**	**270,225**	**303,948**	**26,871**	**5,421**	**88,684**	**2,639,805**	**4,348,352**	**195,619**	**4,543,971**

Notes:

(a) The merger reserve of the Group comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the holding companies as consideration for the group restructuring transactions in previous years.

(b) The capital reserve of the Group comprises contributions from owners in respect of settlement of doubtful receivables and transfer of equity interest in a jointly controlled entity to the Group in previous years.

(c) Statutory reserves comprise statutory reserve fund and enterprise expansion fund. In accordance with relevant rules and regulation on foreign investment enterprise established in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund may be distributed to shareholders in the form of bonus issue. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC.

Consolidated Cash Flow Statement

	For the year ended 31 December 2006 HK$'000	2005 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**1,003,973**	929,957
Adjustments for:		
Share of results of jointly controlled entities	**(41,037)**	(49,941)
Amortisation of prepaid lease payments	**995**	1,675
Depreciation of property, plant and equipment	**67,788**	49,564
Loss on disposal of property, plant and equipment	**261**	338
Increase in fair value of investment properties	**(17,306)**	(6,000)
Interest income	**(20,192)**	(6,280)
Finance costs	**128,624**	112,376
Dividend income	**(581)**	(2,602)
Gain on disposal of trading securities	**(9,517)**	–
Gain on disposal of investment properties	**(25,466)**	–
Loss on disposal of subsidiaries	**3,473**	–
Fair value changes in derivative financial instruments	**1,865**	–
Write-back of inventories to net realisable value	**(28,260)**	–
Recognition of share-based payment expenses	**5,421**	–
Operating cash flows before movements in working capital	**1,070,041**	1,029,087
Decrease (increase) in inventories	**568,116**	(820,293)
Increase in trade and bills receivable	**(406,018)**	(297,061)
(Increase) decrease in advance payments and other receivables	**(823,936)**	627,821
Increase in amount due from ultimate holding company	**(41,765)**	–
(Decrease) increase in trade and bills payable	**(1,495,145)**	973,652
Increase (decrease) in receipts in advance and other payables	**1,307,492**	(1,088,301)
Purchase of trading securities	**(14,455)**	–
Proceeds from disposal of trading securities	**23,972**	–
Increase in bills discounted to banks	**1,841**	–
Net cash generated from operations	**190,143**	424,905
Income tax paid	**(113,017)**	(191,119)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**77,126**	233,786

Consolidated Cash Flow Statement

	For the year ended 31 December	
	2006	2005
	HK$'000	*HK$'000*
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(300,272)**	(255,445)
Interest received	**20,192**	6,280
Purchase of available-for-sales investments	**(236,632)**	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	**–**	(15,445)
Additional investments in jointly controlled entities	**(2,927)**	–
Dividends received from jointly controlled entities	**43,134**	41,782
Dividends received on unlisted investments	**581**	2,602
Increase in pledged bank deposits	**(6,287)**	–
Proceeds from disposal of investment properties	**190,642**	–
Proceeds from disposal of property, plant and equipment	**3,552**	285
Proceeds from disposal of subsidiaries	**(1,573)**	–
Repayment of loans receivable	**–**	205,462
NET CASH USED IN INVESTING ACTIVITIES	**(289,590)**	(14,479)
FINANCING ACTIVITIES		
Decrease in amount due to a director	**–**	(3,271)
Decrease in amount due to a shareholder	**–**	(116,941)
Capital contributed by minority shareholders of subsidiaries	**–**	10,208
Interest paid	**(95,980)**	(112,376)
Proceeds from issue of shares, net of expenses	**–**	482,325
Proceeds from issue of convertible bonds, net of transaction costs	**1,272,486**	–
Proceeds from bank loans	**6,910,972**	13,025,875
Repayment of bank loans	**(7,745,598)**	(13,653,333)
Dividends paid	**(116,740)**	–
Dividends paid to minority shareholders of subsidiaries	**(2,180)**	(2,371)
Net cash generated from (used in) financing activities	**222,960**	(369,884)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**10,496**	(150,577)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**66,551**	214,064
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**2,227**	3,064
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**79,274**	66,551

Notes to the Consolidated Financial Statements

1. General

The Company is a public 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 (the "Stock Exchange"). Its parent is Sinochem Hong Kong (Group) Company Limited (incorporated in Hong Kong) and its ultimate holding company is Sinochem Corporation (incorporated in the PRC). The address of the registered office is Clarendon House, 2 Church Street Hamilton HM11, Bermuda. The principal place of business of the Company is Units 4601-4610, 46th Floor, Office Tower, Convention Plaza, 1 Habour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars which is the presentation currency of the Company selected to be consistent with prior years presentation. The functional currencies of the Group's subsidiaries in PRC and Macao are RMB and United State dollars, respectively.

The Company and its subsidiaries are engaged in sale and production of fertilisers and agricultural related products. The Company's principal subsidiaries are set out in note 42.

2. Reverse acquisition

Reverse acquisition

On 28 January 2005, the Company entered into an acquisition agreement with Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") in respect of the acquisition of the entire shareholding of China Fertilizer (Holdings) Company Limited ("China Fertilizer"), a wholly-owned subsidiary of Sinochem HK, for a consideration of HK$5,050 million (the "Transaction"). China Fertilizer and its subsidiaries (collectively the "Fertilizer Group") are engaged in the sale and production of fertilisers and agricultural related products in the PRC.

The consideration for the acquisition of HK$5,050 million was satisfied by the allotment and issue of 5,050 million new shares (the "Consideration Share") of the Company to Sinochem HK. Subsequent to the completion date of the Transaction, the Group is principally engaged in the sale and production of fertilisers and agricultural related products.

2. Reverse acquisition (Continued)

Reverse acquisition (Continued)

The Transaction was accounted for as a reverse acquisition under Hong Kong Financial Reporting Standard 3 "Business Combinations" since the issuance of the Consideration Shares resulted in Sinochem HK becoming the controlling shareholder of the Company. For accounting purposes, in preparing these consolidated financial statements, the Fertilizer Group was treated as the acquirer while the Company and its subsidiaries prior to the Transaction, which were mainly engaged in property investment (referred thereafter to as the "Property Group"), were deemed to have been acquired by the Fertilizer Group. The comparative figures of these consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Fertilizer Group and accordingly:

(i) the assets and liabilities of the Fertilizer Group are recognised and measured in these consolidated financial statements at their historical carrying values prior to the Transaction;

(ii) the retained profits and other equity balances of the Fertilizer Group prior to the Transaction are retained in the equity balances in these consolidated financial statements; and

(iii) the amount recognised as issued equity in these consolidated financial statements, which represents the share capital and share premium in the consolidated balance sheet of the Group, is the sum of the issued share capital of China Fertilizer (the legal subsidiary after the Transaction), the Fertilizer Group's deemed cost of acquisition of the Property Group, and the subsequent issue of new shares of the Company upon completion of the Transaction. However, the equity structure, being the number and type of shares issued, reflects the equity structure of the Company (the legal parent after the Transaction) including the new shares issued in effecting the Transaction.

The Fertilizer Group applied the purchase method to account for the acquisition of the Property Group. In applying the purchase method, the separately identifiable assets and liabilities of the Property Group were recorded in the consolidated balance sheet at their fair values at the completion date of the Transaction. In addition, goodwill arising on the acquisition of Property Group of approximately HK$356,503,000, being the excess of the cost of acquisition of the Property Group over the sum of the fair values of the separately identifiable assets less liabilities of the Property Group, was recorded. The results of the Property Group have been consolidated to the Group's consolidated financial statements since the completion date of the Transaction.

Notes to the Consolidated Financial Statements

3. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

At the date of authorisation of these consolidated financial statements, the following Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC)") were issued but not yet effective. The directors of the Company are in the process of making an assessment of the impact of these standards or interpretations:

HKAS 1(Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[8]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	Group and Treasury Shares Transactions[6]
HK(IFRIC)-Int 12	Service Concession Arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008
8 Effective for annual periods beginning on or after 1 January 2009

4. Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

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

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

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

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

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

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-Current Assets Held for Sale and Discontinued Operations, which are recognised and measured at fair value less costs to sell.

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

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

Goodwill

Goodwill arising on acquisitions

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. Significant accounting policies (Continued)

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance form part of the Group's net investment in the jointly controlled entities), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods

- wholesale sales are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

- retail sales are recognised when a group entity sells a product to the customer. Retail sales are usually in cash.

Sales of services are recognised when services are rendered.

Rental income is recognised on a straight-line basis according to terms of the leases.

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

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

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	20-30 years
Plant, machinery and equipment	10 years
Motor vehicles	8 years
Furniture and fixtures	4 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments representing prepaid land costs are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Prepaid lease payments are amortised to the consolidated income statement over the term of relevant land leases.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in fair value of investment properties are included in profit and loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

4. Significant accounting policies (Continued)

Leasing

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

The Group as lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences arising from a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Foreign currencies (Continued)

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sales. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

Retirement benefit costs

Payments to the defined contribution retirement plan are charged as expenses when employees have rendered service entitling them to the contributions.

4. Significant accounting policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable and deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

Deferred taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Mining right

Mining right on a phosphate reserve is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for mining right is provided on the unit-of-production basis over the total proven reserves of the relevant area.

Gains or losses arising from derecognition of mining right are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted-average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivable, advance payments and other receivables, amount due from ultimate holding company, bills discounted to banks, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses will not reverse in subsequent periods.

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Convertible loan notes

Convertible loan notes issued by the Company are regarded as compound instruments. Derivatives embedded in the host debt contracts are treated as separated derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. The conversion option is classified as equity component only if the option can be converted by exchange a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. In the case that the conversion options are not settled by the exchange of a fixed amount for fixed number of equity instrument, the issuer recognises the compound financial instrument in the form of financial liability with embedded derivatives. A call, put, or prepayment option embedded in a host debt contract is not closely related to the host contract unless the option's exercise price is approximately equal on each exercise date to the amortised cost of the host debt instrument.

At the date of issue, the conversion option derivative, holder redemption option, issuer redemption option (collectively the "derivative component") and liability component are recognised at their respective fair values.

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and derivative components in proportion to the allocation of the proceeds. Transaction costs relating to the derivative component is charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible loan notes using the effective interest method.

Other financial liabilities

Other financial liabilities including trade and bills payable, receipts in advance and other payable and bank advances for discounted bills are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

5. Key sources of estimation uncertainty

In the process of applying the entity's accounting policies which are described in note 4, the directors of the Company make various estimates based on experience, expectations of the future and other information. Key sources of estimation uncertainty that affect the amounts recognised in the consolidated financial statements are below:

Fair value of derivative financial instruments

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates.

The fair values of derivative financial instruments are subject to the limitation of the Black-Scholes-Merton Model which requires input of certain assumptions, including the volatility of share price. Changes in the assumptions which are subjective in nature can materially affect the fair value estimate.

Estimated impairment of goodwill

In determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units 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. As at 31 December 2006, the carrying amount of goodwill is HK$356,503,000. Details of the recoverable amount calculation are disclosed in note 23.

6. Financial instruments

(a) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, price risk and credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of changes in market interest rates. The Group's fair value interest rate risk relates primarily to convertible loan notes. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits and interest-bearing financial liabilities which are mainly bank borrowings. Interest rate risk is managed by the director of the Company on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Price risk

The Group is exposed to equity security price risk through its available-for-sale investments and financial derivative instruments. The directors of the Company closely observe the share price movements of those securities relating to the investments and financial derivative instruments in order to minimise the Group's exposure to the price risk.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The directors of the Company considers that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating.

6. Financial instruments (Continued)

(b) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions;

(ii) The fair value of derivative financial instruments is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

(iii) The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices, as appropriate.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. Business and geographical segments

For management reporting purposes, the Group is currently organised into three main operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions and their activities are:

Sourcing and distribution	–	sourcing and distribution of fertilisers and agricultural related products
Production	–	production and sale of fertilisers
Others	–	provision of rental services

7. Business and geographical segments (Continued)

Segment information about these business is as follows:

(a) Business segments

2006

	Sourcing and distribution *HK$'000*	Production *HK$'000*	Others *HK$'000*	Eliminated *HK$'000*	Total *HK$'000*
Turnover					
External sales	19,858,824	1,267,747	–	–	21,126,571
Inter-segment sales	83,567	606,336	–	(689,903)	–
Total	19,942,391	1,874,083	–	(689,903)	21,126,571

Inter-segment sales are charged at prevailing market rates.

	Sourcing and distribution *HK$'000*	Production *HK$'000*	Others *HK$'000*	Eliminated *HK$'000*	Total *HK$'000*
Results					
Segment results	1,043,148	38,190	3,080		1,084,418
Unallocated corporate income					20,773
Unallocated corporate expenses					(54,538)
Increase in fair value of investment properties	–	–	17,306		17,306
Gain on disposal of investment properties	–	–	25,466		25,466
Fair value change on derivative financial instruments					(1,865)
Share of results of jointly controlled entities	–	41,037	–		41,037
Finance costs					(128,624)
Profit before taxation					1,003,973
Income tax expense					(99,191)
Profit for the year					904,782

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2006

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Total HK$'000
Assets				
Segment assets	7,915,188	1,539,599	10,072	9,464,859
Goodwill	320,180	36,323	–	356,503
Interests in jointly controlled entities	–	381,656	–	381,656
Unallocated corporate assets				306,057
Consolidated total assets				10,509,075
Liabilities				
Segment liabilities	2,063,329	677,923	13,181	2,754,433
Unallocated corporate liabilities				3,210,671
Consolidated total liabilities				5,965,104
Other Information				
Capital expenditure	3,314	291,009	5,949	300,272
Depreciation and amortisation	5,013	61,555	1,220	67,788
Provision for impairment of receivables	–	429	–	429

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2005

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Eliminated HK$'000	Total HK$'000
Turnover					
External sales	18,286,893	961,772	–	–	19,248,665
Inter-segment sales	46,672	461,331	–	(508,003)	–
Total	18,333,565	1,423,103	–	(508,003)	19,248,665

Inter-segment sales are charged at prevailing market rates.

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Eliminated HK$'000	Total HK$'000
Results					
Segment results	955,306	51,866	5,705		1,012,877
Unallocated corporate expenses					(20,485)
Share of result of jointly controlled entities	–	49,941	–		49,941
Finance costs	(83,005)	(27,828)	(1,543)		(112,376)
Profit before taxation					929,957
Income tax expense					(137,533)
Profit for the year					792,424

Notes to the Consolidated Financial Statements

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2005

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Total HK$'000
Assets				
Segment assets	6,920,489	1,448,033	165,893	8,534,415
Goodwill	320,180	36,323	–	356,503
Interests in jointly controlled entities	–	367,861	–	367,861
Available-for-sale investments	14,462	–	–	14,462
Unallocated corporate assets				2,094
Consolidated total assets				9,275,335
Liabilities				
Segment liabilities	4,361,796	1,089,333	91,500	5,542,629
Unallocated corporate liabilities				71,993
Consolidated total liabilities				5,614,622
Other Information				
Capital expenditure	338,289	296,482	16	634,787
Depreciation and amortisation	5,188	46,018	33	51,239
Write-back of provision of receivables	(46)	(21)	–	(67)
Write-down of inventories to net realisable value	36,626	–	–	36,626

(b) Geographical segments

In respect of geographical segments, turnover and segment results are based on the country in which the customers are located. No geographical analysis is provided as less than 10% of the Group's turnover and results are attributable to markets outside the PRC.

Total assets and capital expenditure are where the assets are located. No geographical analysis is provided as less than 10% of the Group's assets and capital expenditure are located outside the PRC.

8. Other income

	2006 HK$'000	2005 HK$'000
Revenue from agency service	–	7,827
Rental income	12,560	4,525
Dividend income from unlisted investments	581	2,602
Interest income from		
– loans receivable	–	2,207
– bank deposits	20,192	4,073
Government grants *(Note)*	13,749	23,402
Commission income	–	5,866
Gain on disposal of investment properties	25,466	–
Increase in fair value of investment properties	17,306	6,000
Exchange gain	1,374	16,768
Loss on disposal of property, plant and equipment	–	(338)
Sales from scrapped materials	5,543	–
Gain on disposal of trading securities	9,517	–
Compensation received	12,832	–
Others	7,287	(5,231)
	126,407	67,701

Note: This represents government grants received by the Group in accordance with CaiQi 2004 Number 35 document, pursuant to which companies in the PRC engaging in the production and import of a particular phosphate-based fertiliser are entitled to government subsidy at RMB100 per ton.

9. Finance costs

	2006 HK$'000	2005 HK$'000
Interest on bank borrowing:		
– wholly repayable within five years	(95,980)	(101,758)
– not wholly repayable within five years	–	(1,543)
Interest expense on convertible loan notes		
wholly repayable within five years	(32,644)	–
Bank charges and others	–	(9,075)
	(128,624)	(112,376)

Notes to the Consolidated Financial Statements

10. Income tax expense

	2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong Profits Tax	**(1,640)**	(1,443)
Taxation in jurisdictions other than Hong Kong	**(100,769)**	(130,137)
	(102,409)	(131,580)
Deferred taxation credit (charge) *(note 33)*	**3,218**	(5,953)
Taxation attributable to the Company and its subsidiaries	**(99,191)**	(137,533)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

PRC enterprise income tax has been provided on the estimated assessable profits of subsidiaries operating in the PRC at the applicable rate of income tax of 33% (2005: 33%) Certain subsidiaries of the Group in the PRC are entitled to preferential income tax treatments which are detailed below:

(a) Sinochem Chongqing Fuling Chemical Fertilizer Company ("Sinochem Fuling"), a 60% owned subsidiary of the Group, is currently subject to a preferential PRC enterprise income tax rate of 15% granted by the local tax bureau of Chongqing City in July 2001. According to the policy for the development of the Western region of the PRC promulgated by the State Council, Sinochem Fuling is entitled to this preferential income tax treatment from 2002 to 2010 provided it is engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) and its principal business and revenue from the principal operations accounts for over 70% of its total revenue.

(b) Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited ("Sinochem Zhisheng"), a 53.19% owned subsidiary of the Group, is currently entitled to a preferential income tax treatment granted by the State Tax Bureau of Fujian province. Pursuant to such preferential income tax treatment, 40% of the amount invested in domestically made machinery by Sinochem Zhisheng in a particular year under its technological renovation project for compound fertiliser production can be applied to set off against the enterprise income tax of the preceding year.

10. Income tax expense (Continued)

No provision for income tax has been made for certain subsidiaries of the Company in jurisdiction other than Hong Kong and the PRC as those subsidiaries have profit exempted from tax for the year.

A statement of reconciliation of taxation is as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	**1,003,973**	929,957
Tax calculated at the main applicable tax rate of 33% (2005: 33%)	**(331,311)**	(306,885)
Tax effect of expenses not deductible for tax purposes	**(12,949)**	(285)
Tax effect of tax exemptions	**163,312**	7,566
Tax effect of income not taxable for tax purposes	**67,414**	150,552
Tax effect of share of results of jointly controlled entities	**13,542**	16,481
Effect of different income tax rates in other jurisdictions	**1,836**	2,178
Others	**(1,035)**	(7,140)
Income tax expense for the year	**(99,191)**	(137,533)

Notes to the Consolidated Financial Statements

11. Profit for the year

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**67,788**	49,564
Amortisation of prepaid lease payments	**995**	1,675
Auditors' remuneration	**5,949**	5,822
Directors' emoluments *(see note 12)*	**6,141**	1,099
Staff benefits *(Note)*	**127,618**	122,384
Total employee benefits expenses	**133,759**	123,483
Minimum lease payments made in respect of properties	**14,959**	10,882
Direct operating expenses arising from investment properties that generate rental income	**5,031**	1,130
Fair value changes in derivative financial instruments	**1,865**	–
Provision for impairment (reversal of provision for impairment) of receivables	**429**	(67)
Loss on disposal of fixed assets	**261**	338
Loss on disposal of subsidiaries	**3,473**	–
(Write-back) write-down of inventories to net realisable value	**(28,260)**	36,626

Note: Included in staff benefits are share-based payments and contributions to retirement benefit schemes for the year of HK$3,137,000 and HK$7,427,000, respectively.

12. Directors' remuneration

The emoluments paid or payable to each of the ten directors during the year ended 31 December 2006 were as follows:

	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contribution	Sub-total	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note 1)			*(Note 2)*	
Mr. Liu De Shu	–	–	–	–	–	387	387
Mr. Song Yu Qing	–	–	120	–	120	301	421
Mr. Du Ke Ping	–	1,134	652	17	1,803	994	2,797
Mr. Harry Yang	–	1,033	121	–	1,154	301	1,455
Dr. Chen Guo Gang	–	–	–	–	–	301	301
Dr. Stephen Francis Dowdle	–	–	–	–	–	–	–
Mr. Ko Ming Tung, Edward	260	–	–	–	260	–	260
Dr. Li Ka Cheung, Eric	260	–	–	–	260	–	260
Dr. Tang Tin Sek	260	–	–	–	260	–	260
Mr. Wade Fetzer III	–	–	–	–	–	–	–
	780	2,167	893	17	3,857	2,284	6,141

Notes to the Consolidated Financial Statements

12. Directors' remuneration (Continued)

The emoluments paid to directors during the year ended 31 December 2005 were as follows:

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Performance related incentive payments *HK$'000* *(Note 1)*	Retirement benefit scheme contribution *HK$'000*	Sub-total *HK$'000*	Share-based payments *HK$'000* *(Note 2)*	Total *HK$'000*
Mr. Liu De Shu	–	–	–	–	–	–	–
Mr. Song Yu Qing	–	–	–	–	–	–	–
Mr. Du Ke Ping	–	278	293	–	571	–	571
Ms. Chen Hao	–	–	–	–	–	–	–
Dr. Chen Guo Gang	–	–	–	–	–	–	–
Dr. Stephen Francis Dowdle	–	–	–	–	–	–	–
Mr. Ko Ming Tung, Edward	176	–	–	–	176	–	176
Dr. Li Ka Cheung, Eric	176	–	–	–	176	–	176
Dr. Tang Tin Sek	176	–	–	–	176	–	176
Mr. Chiu Yu Lin, David	–	–	–	–	–	–	–
Mrs. Chu Ho Miu Hing	–	–	–	–	–	–	–
	528	278	293	–	1,099	–	1,099

Note 1: The performance related incentive payments were determined with reference to the operating results, individual performance and comparable market statistics.

Note 2: Share-based payments represent the fair value of share options granted to the relevant directors. For details of options granted, please refer to note 35 to the consolidated financial statements.

13. Employees' remuneration

Of the five individuals with the highest emoluments in the Group, two (2005: one) were directors of the Company, whose emoluments are included and disclosed in note 12 above. The emoluments of the remaining three (2005: four) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**2,795**	1,982
Performance related incentive payments	**1,405**	1,293
Retirement benefit scheme contributions	**56**	87
	4,256	3,362

Their emoluments were within the following bands:

	Number of employee(s)	
	2006	2005
HK$Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**3**	–

14. Dividend

	2006	2005
	HK$'000	*HK$'000*
Proposed final dividend of HK2.31 cents per share (2005: HK2.01 cents)	**134,437**	116,913

The final dividend of HK2.31 cents (2005: HK2.01 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

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15. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity shareholders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**896,246**	779,421
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**5,807,950**	5,378,099
Effect of dilutive potential shares:		
– share options	**8,050**	–
Weighted average number of shares for the purpose of diluted earnings per share	**5,816,000**	5,378,099

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in increase in profit per share.

16. Investment properties

	2006 HK$'000	2005 HK$'000
AT FAIR VALUE		
At the beginning of the year	160,000	–
Acquisition of subsidiaries	–	154,000
Transfer from property, plant and equipment	14,226	–
Increase in fair value recognised in the consolidated income statement	17,306	6,000
Disposals	(177,000)	–
At the end of the year	14,532	160,000

The carrying amounts of investment properties situated in Hong Kong and the PRC are as follows:

	2006 HK$'000	2005 HK$'000
Medium-term leases in Hong Kong	–	160,000
Medium-term leases in the PRC	14,532	–
	14,532	160,000

In the current year, the Group disposed of all its investment properties situated in Hong Kong with carrying amount of HK$177,000,000, which had been measured at fair value before disposal. A gain on disposal of HK$25,466,000 has been recognised in the consolidated income statement.

The Group's investment properties were valued in respect of the properties' values as at 31 December 2006 by Knight Frank Petty Limited, an independent qualified professional valuers not connected with the Group. Knight Frank Petty Limited has appropriate qualifications and experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

All of the Group's property interests held under operating leases to earn rentals purposes are measured using the fair value model and are classified and accounted for as investment properties.

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17. Property, plant and equipment

	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION						
At 1 January 2005	149,623	211,660	17,895	66,705	87,021	532,904
Exchange realignment	4,191	6,102	527	1,562	2,495	14,877
Purchase of subsidiaries	–	–	–	140	–	140
Additions	–	482	12,822	5,607	236,534	255,445
Disposals	–	(323)	(1,864)	(336)	–	(2,523)
Transfer from assets under construction	72,811	116,636	–	122	(189,569)	–
At 31 December 2005	226,625	334,557	29,380	73,800	136,481	800,843
Exchange realignment	9,175	13,262	1,029	2,948	6,169	32,583
Additions	2,012	3,298	2,315	5,936	286,711	300,272
Transfers from construction in progress	55,242	72,791	–	19,746	(147,779)	–
Transfer to investment properties	(18,672)	–	–	–	–	(18,672)
Transfer to prepaid lease payment	–	–	–	–	(65,064)	(65,064)
Disposals/write-off	–	(1,336)	(910)	(2,955)	(7,228)	(12,429)
At 31 December 2006	**274,382**	**422,572**	**31,814**	**99,475**	**209,290**	**1,037,533**
DEPRECIATION AND AMORTISATION						
At 1 January 2005	5,593	9,344	4,509	5,464	–	24,910
Exchange realignment	236	1,243	114	166	–	1,759
Provided for the year	10,296	32,790	2,432	4,046	–	49,564
Eliminated on disposals	–	(320)	(1,260)	(320)	–	(1,900)
At December 31, 2005	16,125	43,057	5,795	9,356	–	74,333
Exchange realignment	652	1,972	228	901	–	3,753
Provided for the year	3,424	26,094	3,814	34,456	–	67,788
Transfer to investment properties	(4,446)	–	–	–	–	(4,446)
Eliminated on disposals/write-off	–	(1,229)	(697)	(2,955)	–	(4,881)
At 31 December 2006	**15,755**	**69,894**	**9,140**	**41,758**	**–**	**136,547**
CARRYING VALUES						
At 31 December 2006	**258,627**	**352,678**	**22,674**	**57,717**	**209,290**	**900,986**
At 31 December 2005	210,500	291,500	23,585	64,444	136,481	726,510

18. Prepaid lease payments

	2006 HK$'000	2005 HK$'000
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
Long lease	**75,145**	41,924
Medium-term lease	**33,854**	–
	108,999	41,924
Analysis for reporting purposes as:		
Current asset	**2,233**	–
Non-current asset	**106,766**	41,924
	108,999	41,924

19. Mining right

The mining right on a phosphate reserve is held by a 60% owned subsidiary which was acquired by the Group on 27 October 2005. The mining right is stated at cost which, in the opinion of directors, represents a close approximation to its fair value as at the date of acquisition based on a valuation performed by an independent professionally qualified valuer, China Assets Appraisal Co., Ltd..

The mining right is due in 2011 and is renewable at minimal cost.

No amortisation was charged during the year as the mining process has not started.

Notes to the Consolidated Financial Statements

20. Interests in jointly controlled entities

	2006	2005
	HK$'000	*HK$'000*
Share of net assets	**381,656**	367,861

Movements of share of net assets of jointly controlled entities are as follows:

	2006	2005
	HK$'000	*HK$'000*
At 1 January	**367,861**	351,698
Additions	**2,927**	–
Share of results before income tax	**43,726**	54,967
Share of income tax expense	**(2,689)**	(5,026)
Dividends paid	**(43,134)**	(41,782)
Exchange differences	**12,965**	8,004
At 31 December	**381,656**	367,861

20. Interests in jointly controlled entities (Continued)

The summary financial information of the Group's jointly controlled entities is as follows:

	2006	2005
	HK$'000	*HK$'000*
Financial position		
Non-current assets	**2,487,720**	1,243,624
Current assets	**1,107,056**	1,064,888
Non-current liabilities	**(1,099,831)**	(504,662)
Current liabilities	**(1,288,005)**	(607,505)
Net assets	**1,206,940**	1,196,345
The Group's share of net assets of jointly controlled entities	**381,656**	367,861
Result for the year		
Revenue	**2,372,920**	1,283,982
Profit for the year	**128,658**	184,477
The Group's share of results of jointly controlled entities	**41,037**	49,941

Details of the principal jointly controlled entities are set out in note 43 to the consolidated financial statements.

21. Available-for-sale investments

	2006	2005
	HK$'000	*HK$'000*
Available-for-sale investments at 31 December, comprise:		
Listed equity securities in the PRC	**281,472**	–
Unlisted equity securities in the PRC	**10,232**	19,933
Less: impairment losses	**(1,285)**	(5,471)
	290,419	14,462

At the balance sheet date, all listed available-for-sale investments are stated at fair value which have been determined by reference to the market price and the discount rate in connection with the lock-up period. The discount rate ranges from 10.60% to 18.51%.

The unlisted equity securities, representing investments in private entities are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

Notes to the Consolidated Financial Statements

22. Goodwill

	HK$'000
At 1 January 2005	–
Additions	356,503
At 31 December 2005 and 2006	356,503

Particulars regarding impairment testing on goodwill are set out in note 23.

23. Impairment testing on goodwill with indefinite useful lives

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the cash generating units ("CGUs") of the related segments as follows.

	2006	2005
	HK$'000	*HK$'000*
Sourcing and distribution	**320,180**	320,180
Production	**36,323**	36,323
	356,503	356,503

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions such as discount rates and growth rates. The directors of the Company estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific relating to the CGUs. The growth rates are based on GDP growth of the PRC economy.

At the balance sheet date, the Group performed impairment review for goodwill based on cash flow forecasts derived from financial budgets approved by directors and a discount rate of 10.05%. Both sets of cash flows beyond the year 2007 are extrapolated using a declining average growth rate of 10.50% for the first eight years and a steady growth rate of 6.30% for the following 6 years. The value in use calculated by using the discount rate is higher than the carrying amounts of CGUs, accordingly, there are no impairments of any of the CGUs containing goodwill with indefinite useful lives.

24. Inventories

	2006	2005
	HK$'000	*HK$'000*
Fertiliser merchandise and finished goods	**4,091,594**	4,679,235
Raw materials	**252,689**	96,768
Work in progress	**15,071**	18,330
Production supplies	**5,211**	3,816
	4,364,565	4,798,149

25. Trade and bills receivable

The Group allows its trade customers with credit periods normally within 120 days. The following is an analysis of trade and bills receivable at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**1,264,883**	806,013
91 days to 180 days	**1,463**	39,046
181 days to 360 days	**5,113**	373
Over 360 days	**898**	1,278
	1,272,357	846,710

26. Amount due from ultimate holding company

The amount represents trade balance due from ultimate holding company. The Group allows 120 days credit period to its ultimate holding company. At 31 December 2006, the balance is aged within 90 days.

27. Bills discounted to banks

The Group discounted certain bills to banks with recourse in exchange for cash. The transactions have been accounted for as collateralised bank advances for the year ended 31 December 2006. The bills discounted to banks and remained outstanding as at 31 December 2006 amounted to HK$1,364,806,000 (2005: HK$1,417,893,000).

Notes to the Consolidated Financial Statements

28. Pledged bank deposits/bank balances and cash

Pledged bank deposits

The pledged deposits have been placed in designated banks as part of the securities provided for bill facilities granted to the Group.

Bank balance and cash

Bank balances, deposits and cash comprise cash held by the Group and short-term bank deposits with originally maturity of three months or less, and carry interests ranging from 0.72% to 3.95% (2005: 0.70% to 3.15%) per annum.

Included in pledged bank deposits and bank balances and cash are the following amounts denominated in currencies other than the functional currency of the entity to which they relate.

	2006	2005
	HK$'000	*HK$'000*
United State dollars	**4,313**	4,938

29. Trade and bills payable

The following is an analysis of trade and bills payable at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**1,803,563**	2,244,443
91 days to 180 days	**1,427**	197,249
181 days to 360 days	**2,359**	6,022
Over 360 days	**7,907**	598
	1,815,256	2,448,312

30. Convertible loan notes/derivative financial liabilities

The Company issued 130,000 zero coupon notes with face value of HK$10,000 each on 7 August 2006. The convertible loan notes are denominated in Hong Kong dollars. The notes entitle the holders to convert them into ordinary shares of the Company on or after 22 August 2006 up to and including the close of business on 23 July 2011 or, if the notes shall have been called for redemption before the 7 August 2011 (maturity date), then up to the close of business on a date no later than seven business days prior to the date fixed for redemption at a conversion price of HK$3.74 per ordinary share. If the notes have not been converted or early redeemed, they will be redeemed on the maturity date at 127.23% of the face value of the notes.

30. Convertible loan notes/derivative financial liabilities (Continued)

At any time after 7 August 2009 and prior to the maturity date, the Company shall have the right to redeem the notes in whole but not in part at the early redemption amount if the closing price of the shares on each of the 30 consecutive trading days immediately prior to the date upon which notice of such redemption is given was at least 130% of the applicable early redemption amount divided by the conversion ratio (as defined in the Terms and Conditions of the convertible loan notes).

On 7 August 2009, the holders shall have the right to require the Company to redeem in whole or in part of the notes at 115.55% of the face value of the notes.

The convertible loan notes contain liability component stated at amortised cost and conversion option, holder redemption option and issuer redemption option (collectively the "derivative component") stated at fair value. The derivative component is presented on a net basis as the terms and conditions of options under the derivative component are inter-related. Issue costs of HK$29,428,000 are apportioned between the liability component and derivatives component based on their relative fair values at the date of issue. An issue cost of HK$27,513,000 relating to the liability component is included into the fair value of liability component at the date of issue. The effective interest rate of the liability component is 6.82%.

The movement of the liability and derivative components of the convertible loan notes for the year is set out as below:

	Liability component *HK$'000*	**Derivatives component** *HK$'000*
Amount initially recognised	1,187,763	84,592
Interest charge	32,644	–
Change in fair value	–	1,865
At 31 December 2006	**1,220,407**	**86,457**
Fair value at 31 December 2006	**1,282,664**	**86,457**

Notes to the Consolidated Financial Statements

31. Borrowings

	2006	2005
	HK$'000	*HK$'000*
Bank loans, secured	**53,747**	126,744
Bank loans, guaranteed	**19,906**	13,044
Bank loans, unsecured	**388,617**	1,119,352
	462,270	1,259,140
Carrying amount repayable:		
Within one year	**99,118**	1,025,052
In more than one year, but not more than two years	**94,415**	66,491
In more than two years, but not more than five years	**268,737**	127,700
In more than five years	**–**	39,897
	462,270	1,259,140
Less: Amounts due within one year shown under current liabilities	**(99,118)**	(1,025,052)
Amounts due after one year	**363,152**	234,088

An analysis of the carrying amounts of the Group's total borrowings by type is as follows:

	2006	2005
	HK$'000	*HK$'000*
Variable-rate borrowings	**256,238**	383,153
Fixed-rate borrowings	**206,032**	875,987
Total borrowings	**462,270**	1,259,140

31. Borrowings (Continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Variable-rate borrowings	**0%-5.56%**	3.94%-4.68%
Fixed rate borrowings	**5.56%**	4.68%

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong dollars	**4,850**	80,263

At 31 December 2006, bank borrowings amounting to HK$19,906,000 (2005: HK$13,044,000) were guaranteed by a related company of a joint venture partner.

At 31 December 2006, certain property, plant and equipment, prepaid lease payments with carrying values of HK$208,805,000 (2005: HK$252,375,000) were pledged to secured banking facilities granted to the Group.

32. Other financial assets/liabilities

Other financial assets at 31 December 2006 include advance payments and other receivables. Other financial liabilities at 31 December 2006 include receipts in advance and other payables and bank advances for discount bills.

Notes to the Consolidated Financial Statements

33. Deferred Taxation

The following are the deferred taxation liabilities recognised and movements thereon during the current and prior reporting years:

	Undistributed profits of a subsidiary and jointly controlled entities	Revaluation of investment properties	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	11,451	–	1,689	13,140
Acquisition of subsidiaries	–	10,774	354	11,128
Charge to income for the year	1,663	1,050	11,092	13,805
Exchange differences	276	–	165	441
At 31 December 2005	13,390	11,824	13,300	38,514
Credit to income for the year	–	–	(13,495)	(13,495)
Charge to equity for the year	–	–	13,235	13,235
Release upon disposal	–	(11,824)	–	(11,824)
Exchange differences	474	–	195	669
At 31 December 2006	**13,864**	**–**	**13,235**	**27,099**

33. Deferred Taxation (Continued)

The following are the deferred taxation assets recognised and movements thereon during the current and prior reporting years:

	Unrealised profits in inventories	Allowance for inventories	Impairment of property, plant and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	(8,986)	–	(2,048)	(11,034)
(Credit) charge to income for the year	4,236	(12,088)	–	(7,852)
Exchange differences	(153)	(138)	(46)	(337)
At 31 December 2005	(4,903)	(12,226)	(2,094)	(19,223)
(Credit) charge to income for the year	(375)	9,437	1,215	10,277
Exchange differences	(182)	(244)	(50)	(476)
At 31 December 2006	**(5,460)**	**(3,033)**	**(929)**	**(9,422)**

For the purpose of balance sheet presentation, certain deferred taxation assets and liabilities have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2006	2005
	HK$'000	*HK$'000*
Deferred taxation assets	**(9,422)**	(2,094)
Deferred taxation liabilities	**27,099**	21,238
	17,677	19,144

Deferred taxation assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred taxation assets in respect of losses amounting to HK$409,234,000 (2005: HK$540,744,000) that can be carried forward against future taxable income.

Notes to the Consolidated Financial Statements

34. Issued equity

	Number of shares *(in thousands)*	*HK$'000*
At 31 December 2005 and 31 December 2006	5,807,950	767,766

Due to the application of reverse acquisition basis of accounting, the amount of issued equity of the Group as at 31 December 2005, which included share capital and share premium in the consolidated balance sheet, represented the amount of issued equity of the legal subsidiary, China Fertilizer, immediately before the acquisition of HK$78,000, the deemed cost of acquisition of the Property Group of HK$285,363,000, and the issue of new shares of HK$482,325,000 during the year ended 31 December 2005, after deducting the costs of issuing the new shares.

35. Share-based payment transactions

Equity-settled share option scheme

The share option scheme adopted by the Company on 11 September 1996 ("Old Share Option Scheme") was terminated on 26 August 2002.

A new share option scheme ("New Share Option Scheme") was adopted pursuant to a resolution passed on 26 August 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 25 August 2012. Under New Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under New Share Option Scheme was 28,445,000 (2005: nil), representing 0.49% (2005: nil) of the shares of the Company in issue as at the date of this report. The total number of option shares available for granting under the New Share Option Scheme at the date of this report is 580,794,982. The total number of shares in respect of which options may be granted under New Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors, or any of their respective associates (as defined under the Listing Rules) in the 12-month period up to and including the date of such grant in excess of 0.1% of the Company's share capital in issue with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

The option price is HK$1 which is payable on acceptance of an option. No more than two-thirds of the options are exercisable from 23 January 2008 to 22 January 2009, and the remaining options are exercisable at any time from 23 January 2009 to 22 January 2012. The exercise price was determined by the directors of the Company by reference to the then market trading price of the shares, and was the highest of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

35. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

Details of the share option scheme and its granting are as follows:

Grantees	Date of grant *(Note 1)*	Exercisable period	Exercise Price *HK$* *(Note 4)*	Number of options
Mr. LIU De Shu *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	2,033,000
Mr. SONG Yu Qing *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
Mr. DU Ke Ping *(Note 3)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	5,213,000
Mr. CHEN Guo Gang *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
Mr. Harry YANG *(Note 3)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
Employees	23 January 2006	23 January 2008 to 22 January 2012	1.672	16,453,000

Notes:

(1) No more than two-thirds of the options are exercisable from 23 January 2008 to 22 January 2009, and the remaining options are exercisable from 23 January 2009 to 22 January 2012.

(2) Non-Executive Director of the Company.

(3) Executive Director of the Company.

(4) The closing price per share immediately before 23 January 2006, being the date of grant, was HK$1.64.

The following table discloses movements of the Company's share options held by directors and employees during the year:

Option type	**Outstanding at 1/1/2006**	**Granted during the year**	**Forfeited during the year**	**Outstanding at 31/12/2006**
2006	**–**	**30,010,000**	**(1,565,000)**	**28,445,000**
Exercisable at the end of the year				**–**
Weighted average exercise price	**–**	**1.672**	**1.672**	**1.672**

35. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

Options were granted on 23 January 2006 and their estimated fair values are HK$14,662,000.

The following table discloses movements of the Company's share options held by directors and employees during 2005:

Option type	Outstanding at 1/4/2005	Granted during the year	Lapsed during the year	Outstanding at 31/12/2005
2005 *(Note)*	2,000,000	–	(2,000,000)	–
Weighted average exercise price *(Note)*	0.378	–	–	–

Note: On 5 July 2005, the nominal value of the Company's ordinary shares of HK$0.10 each was reduced to HK$0.01 each ("Capital Reduction"). Every 10 ordinary shares of HK$0.01 each of the Company was then consolidated into one ordinary share of HK$0.10 each ("Share Consolidation"). The effect of Capital Reduction and Share Consolidation had not been taken into account for 2005 Company's share option held by directors and employees.

These fair values were calculated using the binomial option pricing model. The inputs into the model were as follows:

	2006
Weighted average share price	HK$1.672
Exercise price	HK$1.672
Expected volatility	33.99%
Expected life	3.67 – 4.17 years
Risk-free rate *(Note 1)*	3.94% and 4.02%
Expected dividend yield	0.97%

Note 1: Risk free rates 3.94% and 4.02% are used in the computation of the fair value of options exercisable in two years and three years, respectively.

Expected volatility was determined by using the historical volatility of four peer companies' share price over the previous three years. The expected life used in the model has been adjusted, based on directors' best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$5,421,000 for the year ended 31 December 2006 (2005: Nil) in relation to share options granted by the Company.

Notes to the Consolidated Financial Statements

36. Disposal of subsidiaries

During the year, the Company disposed of certain subsidiaries to independent third parties.

The net assets of these subsidiaries at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	3,735
Inventories	24,221
Trade and other receivables	14,030
Dividend receivable	706
Bank balances and cash	2,022
Trade and other payables	(25,048)
Borrowings	(8,261)
Net assets disposed of	11,405
Minority interests	(3,826)
Loss on disposal of subsidiaries	(3,473)
	4,106
Satisfied by:	
Cash	449
Deferred consideration	3,657
	4,106
Net cash outflow arising on disposal:	
Cash considerations received	449
Bank balances and cash disposed of	(2,022)
	(1,573)

The subsidiaries disposed of in the current year did not contribute significantly to the Group's cash flows or operating results.

37. Business combinations

(a) As mentioned in note 2 above, in July 2005, the Company issued 5,050,000,000 ordinary shares in exchange for the entire shareholdings in the Fertilizer Group. Pursuant to HKFRS 3 and as disclosed in note 2, the Fertilizer Group is deemed to be the effective acquirer of the Property Group, reverse acquisition accounting is adopted to account for the Transaction, and accordingly these consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Fertilizer Group, and the results of the Property Group have been consolidated since the date of completion of the Transaction.

Details of the net liabilities of the Property Group assumed and goodwill arising from the Transaction are as follows:

	HK$'000
Purchase consideration:	
– Consideration deemed to have been paid by the Fertilizer Group *(Note (i))*	285,363
– Direct costs relating to the acquisition	7,660
Total purchase consideration	293,023
Less: Fair value of net liabilities of the Property Group assumed – *(Note (ii))*	(63,480)
Goodwill	356,503

Notes:

(i) The fair value of the consideration deemed to have been paid by the Fertilizer Group was based on the fair value of the equity instruments deemed to have been issued by the Fertilizer Group for the acquisition of the Property Group.

Notes to the Consolidated Financial Statements

37. Business combinations (Continued)

(ii) The separately identifiable assets and liabilities of the Property Group as at the completion date of the Transaction were as follows:

	Fair value HK$'000	Acquiree's carrying amount HK$'000
Property, plant and equipment	140	140
Investment properties	154,000	154,000
Trade receivables	1,066	1,066
Other receivables	15,410	15,410
Cash and cash equivalents	1,807	1,807
Other payables	(20,345)	(20,345)
Amount due to a director	(3,271)	(3,271)
Amount due to a shareholder	(116,941)	(116,941)
Borrowings	(84,218)	(84,218)
Deferred income tax liabilities	(11,128)	(354)
Net liabilities assumed	(63,480)	(52,706)

	HK$'000
Direct costs relating to the acquisition	(7,660)
Cash and cash equivalents in subsidiaries acquired	1,807
Cash outflow on the acquisition	(5,853)

The Property Group contributed turnover of HK$4,525,000 and net profit of HK$3,781,000 to the Group for the period from 28 July 2005 (completion date of the Transaction) to 31 December 2005. If the Transaction had occurred on 1 April 2005, the turnover and net profit contributed by the Property Group would have been HK$7,980,000 and HK$5,176,000 respectively.

As extracted from the consolidated financial statements of the Company for the year ended 31 March 2005, the turnover and net profit of the Company and its subsidiaries, which comprise the companies of the Property Group, for the year ended 31 March 2005 were HK$9,951,000 and HK$40,520,000 respectively.

(b) On 27 October 2005, the Group acquired a 60% of equity interest in Guizhou Kaiyang Qinglongjiang Company Limited ("Qinglongjiang") at a purchase consideration of HK$13,703,000, of which HK$9,592,000 was paid before the year end. Qinglongjiang is principally engaged in phosphate mining in the PRC. At the date of acquisition, the only major asset of Qinglongjiang is a mining right. The directors of the Company are of the view that the cost of the mining right to the Group amounted to HK$22,839,000 *(Note 19)* (60% of which amounted to HK$13,703,000), which approximates the fair value of the mining right as at the date of acquisition. Accordingly, there is no goodwill resulted from the acquisition.

The acquired subsidiary made no significant contribution to the turnover and profit of the Group from the date of acquisition to 31 December 2005.

38. Contingent liabilities

At 31 December 2006, the Group had no material contingent liabilities (2005: Nil)

39. Commitments

	2006	2005
	HK$'000	*HK$'000*
Assets under construction		
Contracted but not provided for	**187,404**	71,922
Authorised but not contracted for	**21,655**	8,459
	209,059	80,381
Investment in a jointly controlled entity, Yunnan Three-Circles Sinochem Fertilizer Company Limited	**139,345**	134,577
	348,404	214,958

40. Operating lease commitments

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**651**	8,474
In the second to fifth year	**55**	3,278
	706	11,752

The Group as lessee

The Group leases various retail outlets, offices, warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**15,132**	8,049
In the second to fifth year	**7,488**	4,205
Other five years	**6,741**	7,509
	29,361	19,763

Notes to the Consolidated Financial Statements

41. Related party transactions

The related parties that had transactions with the Group during the year were as follows:

Companies beneficially owned by ultimate holding company

U.S. Chem Resources Inc.
(美國化工資源公司)

US Agri-Chemicals Corporation
(美國農化公司)

Sinochem Guangdong Import & Export Corp. ("Sinochem Guangdong")
(中化廣東進出口公司)

Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong")
(中化山東肥業有限公司)

Sinochem (United Kingdom) Limited
(中化(英國)有限公司)

Qinghai Salt Lake Potash Co. Ltd. ("Qinghai Salt Lake")
(青海鹽湖鉀肥股份有限公司)

Jointly controlled entities

Hubei Sinochem & Orient Fertilizer Company Limited ("Sinochem Orient")
(湖北中化東方肥料有限公司)

Yunnan Three Circles-Sinochem-Cargill Fertilizer Company Limited ("Sinochem Cargill")
(雲南三環中化嘉吉化肥有限公司)

Guiyang Sinochem Kailin Fertilizer Company Limited ("Sinochem Kailin")
(貴陽中化開磷化肥有限公司)

Beijing Sinochem Tianji Trading Co., Ltd.
(北京中化天脊貿易有限公司)

Joint venture partners

Guizhou Kailin (Group) Co., Ltd. (Joint venture partner of Sinochem Kailin)
(貴州開磷(集團)有限責任公司)

Yongan Zhisheng Chemical Company Limited
("Yongan Zhisheng", joint venture partner of Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited)
(永安智勝化工有限公司)

An associate of a substantial shareholder of the Company

Canpotex International Pte. Limited ("Canpotex Ltd")

41. Related party transactions (Continued)

(a) During the year, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Corporation and other related parties:

	2006	2005
	HK$'000	*HK$'000*
Sales of fertilisers to:		
Sinochem Corporation	**1,598,714**	917,119
Sinochem Guangdong	**–**	31,247
Sinochem Orient	**11,912**	16,553
Sinochem Shandong	**63,543**	46,710
Guizhou Kailin Fertilizer Co Ltd	**72,881**	–
Purchases of fertilisers from:		
Sinochem Corporation	**594,832**	401,903
Sinochem Guangdong	**–**	225,635
Sinochem Shandong	**427,557**	224,362
Sinochem (United Kingdom) Limited	**–**	407,328
U.S. Chem Resources Inc.	**–**	27,083
Sinochem Orient	**39,965**	58,724
Sinochem Kailin	**141,351**	143,281
Sinochem Cargill	**475,582**	479,352
Qinghai Salt Lake	**849,277**	740,494
Beijing Sinochem Tianji Trading Co., Ltd.	**92,509**	–
Import service fee to:		
Sinochem Corporation	**268**	310
US Agri-Chemicals Corporation	**–**	241
Sinochem (United Kingdom) Limited	**13,756**	10,225
Interest income on loans receivable from Sinochem Corporation	**–**	2,207
Purchase of raw materials from Yongan Zhisheng	**38,489**	47,692

Notes to the Consolidated Financial Statements

41. Related party transactions (Continued)

(b) At the balance sheet date, the Group had the following significant balances with its related parties under trade and bills receivable, advance payments and other receivables, trade and bills payable and receipts in advance and other payables:

	2006	2005
	HK$'000	*HK$'000*
Trade receivables:		
Sinochem (United Kingdom) Limited	**–**	19,446
Advance payments to suppliers:		
Sinochem Cargill	**15,525**	13,635
Sinochem Kailin	**16,614**	9,739
Qinghai Salt Lake	**133,672**	1,209
Sinochem Orient	**8,479**	–
Beijing Sinochem Tianji Trading Co., Ltd	**71,862**	–
Other receivables:		
Canpotex Ltd	**18,285**	–
Trade payables:		
Sinochem Corporation	**–**	5,410
Yongan Zhisheng	**10,451**	3,878
Sinochem Shandong	**25,331**	6,214
Canpotex Ltd	**781,532**	–
Receipts in advance:		
Sinochem Shandong	**3,760**	12
Sinochem Corporation	**–**	2,302
Other payables:		
Sinochem (United Kingdom) Limited	**–**	10,342

The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in note 12.

41. Related party transactions (Continued)

(c) At the balance sheet date, the Group had the following significant balances with other state-owned enterprises as follows:

	2006	2005
	HK$'000	*HK$'000*
Trade and other receivables	**639,588**	289,436
Cash and cash equivalents	**55,121**	49,203
Trade and bills payable	**157,634**	126,781
Receipts in advance and other payables	**46,872**	28,616
Bank advances for discounted bills	**242,906**	296,845
Borrowings	**284,649**	626,432

(d) During the year, the Group had the following significant transactions with other state-owned enterprises as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of fertilizers	**2,171,816**	1,795,672
Purchase of fertilizers	**5,438,395**	2,977,850
Interest income from bank deposits	**1,580**	1,932
Bank charges	**2,432**	2,227
Interest expenses on bank loans	**72,244**	66,179

Notes to the Consolidated Financial Statements

42. Principal subsidiaries

Particulars of the principal subsidiaries and jointly controlled entities of the Group as at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership interest held by the Company	Principal activities
Directly held:				
China Fertilizer (Holdings) Company Limited	BVI	US$10,002	100%	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US$1,000,000	100%	Investment holding
Indirectly held:				
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US$10,002	100%	Investment holding
Sinochem Fertilizer Company Limited (中化化肥有限公司)	PRC	RMB1,800,000,000	100%	Fertiliser trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	HK$15,000,000	100%	Fertiliser trading
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務有限公司)	Macao	MOP100,000	100%	Fertiliser trading
Suifenhe Xinkaiyuan Trading Company Limited (綏芬河新凱源貿易有限公司)	PRC	RMB5,000,000	100%	Fertiliser trading
Sinochem Chemical Fertilizer Erlianhot Company (二連浩特中化化肥有限責任公司)	PRC	RMB5,000,000	100%	Fertiliser trading
Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited (福建中化智勝化肥有限公司)	PRC	RMB47,000,000	53.19%	Sales and manufacturing of fertilisers
Sinochem Chongqing Fuling Chemical Fertilizer Company Limited (中化重慶涪陵化工有限公司)	PRC	RMB80,000,000	60%	Sales and manufacturing of fertilisers

42. Principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership interest held by the Company	Principal activities
Indirectly held: (Continued)				
Sinochem Yantai Crop Nutrition Co., Ltd (煙臺中化作物營養有限公司)	PRC	US$241,000	51%	Sales and manufacturing of fertilisers
Manzhouli Kaiming Fertilizer Company Limited (滿洲里凱明化肥有限公司)	PRC	RMB5,000,000	100%	Fertiliser trading
Guizhou Kaiyang Qinglongjiang Company Limited (貴州開陽青龍江有限公司)	PRC	RMB500,000	60%	Phosphate mining
Fine Straight Investments Limited (快速投資有限公司)	Hong Kong	Ordinary: HK$2 Deferred: HK$10,000*	100%	Property investment
Sanmark Investments Limited (盛茂投資有限公司)	Hong Kong	Ordinary: HK$200 Deferred: HK$82*	100%	Property investment

* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distributions on winding up.

Notes to the Consolidated Financial Statements

43. Principal jointly controlled entities

Name of jointly controlled entity	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership interest held by the Company *(Note)*	Principal activities
Indirectly held:				
Hubei Sinochem & Orient Fertilizer Company Limited (湖北中化東方肥料有限公司)	PRC	RMB10,000,000	55%	Sales and manufacturing of fertilizers
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited (天津北方化肥物流配送有限公司)	PRC	RMB3,000,000	60%	Fertiliser logistics
Guiyang Sinochem Kailin Fertilizer Company Limited (貴陽中化開磷化肥有限公司)	PRC	RMB365,850,000	41%	Sales and manufacturing of fertilisers
Yunnan Three Circles-Sinochem-Cargill Fertilizer Company Limited (雲南三環中化嘉吉化肥有限公司)	PRC	US$29,800,000	25%	Sales and manufacturing of fertilisers
Yunnan Three-Circles Sinochem Fertilizer Company Limited (雲南三環中化化肥有限公司)	PRC	RMB250,000,000	40%	Sales and manufacturing of fertilisers
Tianji Sinochem Trading Co Ltd (北京中化天脊貿易有限公司)	PRC	RMB5,000,000	60%	Fertiliser trading

Note: The Group has joint control over the economic activities of the entities with other joint venture parties.

Other Information

Financial Summary

Results

	For the year ended 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**21,126,571**	19,248,665	11,857,185	9,750,373	7,333,691
Profit before taxation	**1,003,973**	929,957	668,065	491,779	279,272
Income tax expense	**(99,191)**	(137,533)	(141,254)	(99,014)	(53,598)
Profit for the year	**904,782**	792,424	526,811	392,765	225,674
Attributable to:					
Equity shareholders of the Company	**896,246**	779,421	510,824	390,943	225,959
Minority interests	**8,536**	13,003	15,987	1,822	(285)
	904,782	792,424	526,811	392,765	225,674

Note: The historical figures represent financial information of the Fertilizer Group for the period from 2002 to 2004 and the Group for 2005 and 2006. (See Note 2 to the consolidated financial statements for details)

Assets and Liabilities

	As at 31 December				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**10,509,075**	9,275,335	6,826,564	4,233,883	4,586,864
Total liabilities	**(5,965,104)**	(5,614,622)	(4,770,262)	(3,082,130)	(3,840,798)
	4,543,971	3,660,713	2,056,302	1,151,753	746,066

Note: The historical figures represent financial information of the Fertilizer Group for the period from 2002 to 2004 and the Group for 2005 and 2006. (See Note 2 to the consolidated financial statements for details)

Details of Principal Property of the Group

As at 31 December 2006

Investment property

Location	Type	Lease period
3 Maizidian Xilu, Chaoyang District, Beijing	Commercial	Medium-term

中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED
Unit 4601- 4610, 46th Floor,
Office Tower, Convention Plaza,
1 Harbour Road,
Wanchai, Hong Kong.