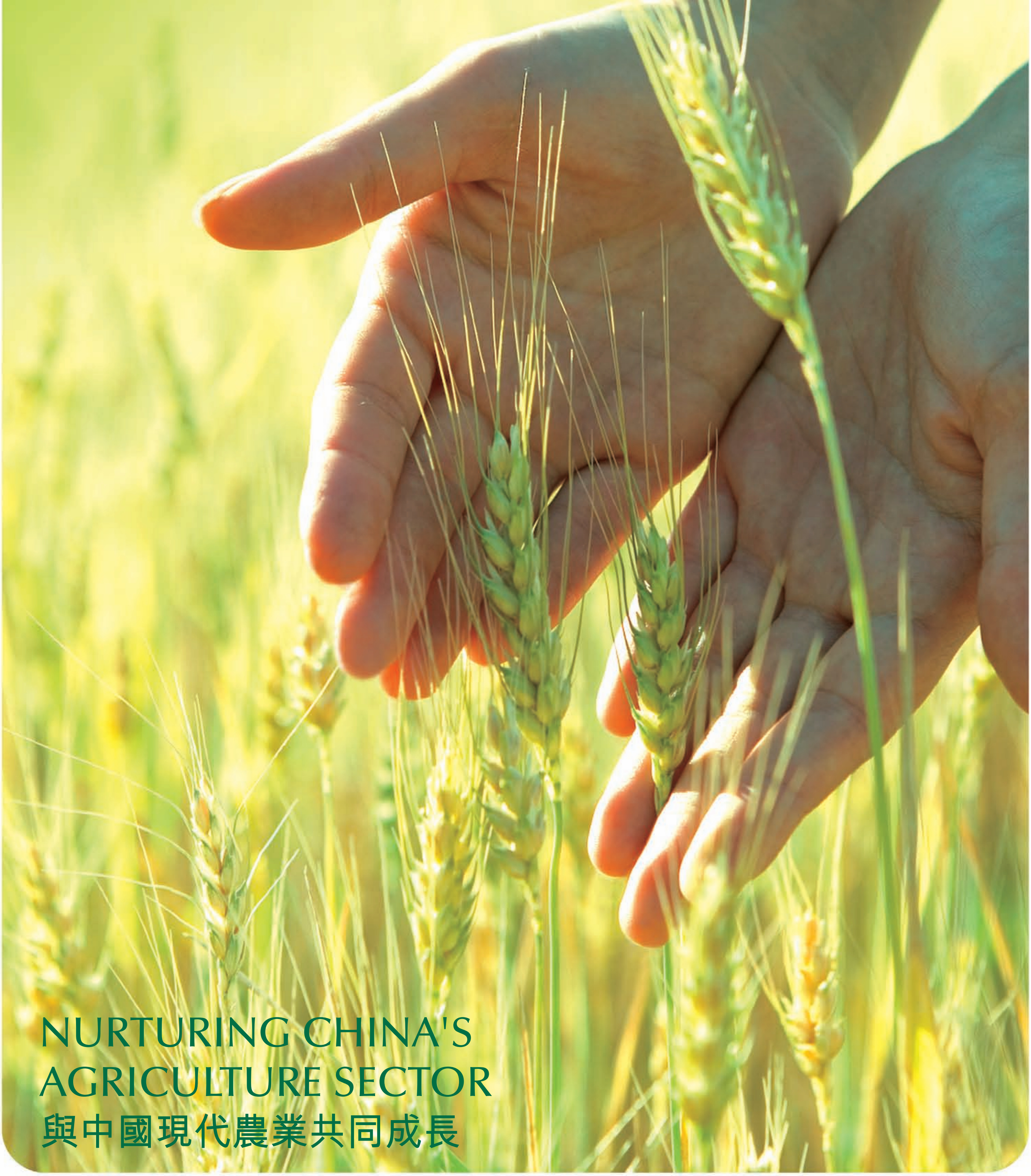

NURTURING CHINA'S AGRICULTURE SECTOR
與中國現代農業共同成長

中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

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

ANNUAL REPORT 2007

CONTENTS

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") in July 2005, and became a listed company on the Stock Exchange of Hong Kong Limited. It is now a comprehensive fertilizer enterprise centering on distribution services and vertically integrating production and network distribution.

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 2007, the Group is:

- 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 of 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: "Based in China to deploy fertilizer resources from 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 is one of China's earliest qualifiers of Fortune Global 500 and was selected for the 17th times, ranking the 299th in 2007. The second largest shareholder of the Company is Potash Corporation of Saskatchewan Inc ("PotashCorp"), which is the largest potash producer in the world.

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

Non-Executive Directors

Dr. CHEN Guo Gang
Dr. Stephen Francis DOWDLE
Mr. Wade FETZER III

Independent Non-Executive Directors

Mr. KO Ming Tung, Edward
Dr. LI Ka Cheung, Eric
(resigned on 28 June 2007)
Dr. TANG Tin Sek
Mr. TSE Hau Yin, Aloysius
(appointed on 28 June 2007)

Audit Committee

Dr. LI Ka Cheung, Eric *(Chairman)*
(resigned on 28 June 2007)
Mr. TSE Hau Yin, Aloysius *(Chairman)*
(appointed on 28 June 2007)
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
(resigned on 28 June 2007)
Dr. Stephen Francis DOWDLE
Mr. TSE Hau Yin, Aloysius
(appointed on 28 June 2007)
Ms. CHEN Yi Qing

Nomination Committee

Mr. KO Ming Tung, Edward *(Chairman)*
Dr. LI Ka Cheung, Eric
(resigned on 28 June 2007)
Dr. Stephen Francis DOWDLE
Dr. TANG Tin Sek
Mr. TSE Hau Yin, Aloysius
(appointed on 28 June 2007)

Chief Financial Officer

Mr. ZHANG Bao Hong

Company Secretary

Mr. Navin AGGARWAL, Solicitor

Legal Advisers

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

Kirkpatrick & Lockhart Preston Gates Ellis
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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Company Website:
www.sinofert.com.hk

Stock Code

297

Principal Office

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Registered Office

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Share Registrar and Transfer Office

Hong Kong
Tricor 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

Bank of China
Bank of Communications
Industrial and Commercial Bank of China
ABN AMRO Bank
Bank of Tokyo-Mitsubishi

Financial Highlight

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

	2007	2006
Sales volume *(in 10,000 ton)*	**1,516**	1,257
Turnover	**29,436,834**	21,126,571
Gross profit	**2,769,205**	1,707,267
Profit before taxation	**1,010,247**	1,003,973
Profit attributable to equity shareholders of the Company	**663,306**	896,246
Profit attributable to equity shareholders of the Company *(Note 1)*	**1,286,491**	898,111
EPS (HK cents per share)	**11.06**	15.43
EPS (HK cents per share) – before the adjustment in fair value *(Note 2)*	**21.44**	15.46
Return on Equity	**8.30%**	20.61%
Return on Equity *(Note 3)*	**16.11%**	20.65%
Debt to Equity Ratio *(Note 4)*	**34.41%**	37.03%

Note 1: Excluding the adjustment of loss in fair value of derivative component of convertible loan notes.

Note 2: Calculated on the basis of profit attributable to equity holders of the Company before the adjustment of loss in fair value of derivative component of convertible loan notes divided by the weighted average number of shares during the Reporting Period.

Note 3: Calculated on the basis of profit attributable to equity holders of the Company before the adjustment of loss in fair value of derivative component of convertible loan notes divided by equity attributable to equity holders of the Company at the end of the Reporting Period.

Note 4: Debt to Equity ratio was calculated on the basis of interest-bearing debt divided by total equity at the end of the Reporting Period.


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Chairman's Statement

Dear Shareholders:

I am delighted to present to you the results of the Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the twelve months ended 31 December 2007 for your review. I would also like to take this opportunity to express my heartfelt thanks to all the shareholders and friends from various circles who have interest in the Group.

For the twelve months ended 31 December 2007, the Group further carried forward the strategy of "centering on marketing and distribution, and expanding into both production and network distribution" with the support of all the shareholders. During the reporting period the Group realised a total sales volume of 15.16 million tons, up by 20.55% over the corresponding period of 2006; turnover reached HK$29,437 million, up by 39.34% year on year, and net profit before adjustment of the loss in fair value of the derivative in convertible loan notes, which has had no effect on the Group's cash flow, rose to HK$1,286 million, up by 43.24% year on year, and earnings per share (EPS) before adjustment of the loss in fair value of the derivative in convertible loan notes increased to 21.44 HK cents, up by 38.68% year on year. These results all hit new record highs. If the loss in fair value of the derivative component of the convertible loan notes, which has had no effect on the Group's cash flow, was included, net profit was HK$663 million, falling by 25.99% from the previous year.

In 2007 the Group successfully acquired the interest held by Sinochem Corporation in Qinghai Salt Lake Potash Co., Ltd, Tianji Sinochem Gaoping Chemical Engineering Co., Ltd, and in Sinochem Shandong Chemical Fertilizer Co., Ltd, and subscribed 30% equity interest in Gansu Wengfu Chemical Co., Ltd, which is the largest phosphate fertilizer producer in northwest China. These acquisitions have further expanded the Company's fertilizer production capacity and broadened the base of domestic supply, and consequently uplifted the Company's asset quality and profitability. As at 31 December 2007, the total fertilizer production capacity of the enterprises in which the Group had equity interest had reached 7.85 million tons.

In 2007, the Group continued to push ahead the building of distribution network under the principle of "setting up distribution centers at the county seat." As at 31 December 2007, the number of distribution centers increased to 1,672, with their services substantially improved to cater to the needs of end-users. Agrichemical service activities were carried out for public welfare in various forms all year round, which were well received by the farmers. As a result, the social responsibility of the Company was further enhanced, and the brand image was uplifted among the public.

In consideration of the financial situation, cash flow, and the prospects for sustained business growth of the Company, the Board proposes a dividend payout of 2.76 HK cents per share for the financial year ended 31 December 2007, which is 19.48% higher than that for the previous year.

Chairman's Statement

Working to maximize shareholders' value, the Board has constantly improved corporate governance to bring into place a highly effective, standardized and rational governance mechanism for scientific decision making. In compliance with the provisions set out in Appendix 14 "Code on Corporate Governance Practices" of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Company held four regular board meetings, at which the annual report, interim report, dividend policy, corporate development strategy and other issues were deliberated and resolved. Meanwhile, at other meetings the Board also examined such important matters as strategic investments and connected transactions. The Audit Committee, Remuneration Committee and the Nomination Committee have also exercised their rights and fulfilled their obligations as entrusted by the Board in their respective work of enhancing internal control, optimizing remuneration and incentives policies and improving the governance structure of the Company.

Looking into the future, the Board believes that the Group is entering into a critical period for strategic development in the next few years. The rapidly growing Chinese economy will continue to provide a favourable environment for the Company's development. In particular, under the background of increasing pressure in global grain supply and rising grain prices, the Chinese Government has continuously expanded its support to the agricultural sector. In 2008, capital expenses by the Chinese Government on the agricultural sector will substantially increase over the previous year to RMB562.5 billion. Active agricultural policies as such provide incentives for the farmers to increase input in production, and help to boost agricultural growth and income of the farmers. At the same time, the growth of the Company is facing some new challenges, including rising cost of fertilizer production as a result of surging oil prices and other resources, as well as the risks of government policies regarding fertilizer export and price regulation in the domestic market. The Group will work harder to sharpen its cutting edge in integrated operations of production-trading-distribution, and strengthen meticulous management to overcome various risks. We have full confidence in achieving our goals.

In 2008, the Group will keep forging ahead along the strategy of "centering on marketing and distribution and expanding into both production and network distribution", enlarge our industrial base for improved product supply, and further expanding our network distribution capabilities. We are committed to fulfill our business goals set for the year 2008, create higher returns for the shareholders and wealth for society, and ultimately play a prominent role in safeguarding China's food security and agricultural growth.

On behalf of the Board, I would also like to take this opportunity to extend our heartfelt appreciations to our customers, the management and all the employees. We hope to have the continued support from our shareholders, and that the management and all the employees will keep forging ahead and overcoming various difficulties to achieve ever better results.

Liu De Shu
Chairman of the Board

Hong Kong, 28 March 2008

Management Review and Prospect

The year of 2007 witnessed over 10% growth in the Chinese economy for five consecutive years. While tightening macro-economic control, the Chinese government continued to expand its support to the agricultural sector. Throughout the year the Central Government made capital expenses totaling RMB431.8 billion to support the rural areas, the farmers and the farming industry, which increased by 27% over the previous year. Consequently, grain output rose for four consecutive years to 500 million tons, and the net income per capita of the farmers was up by 9.5% after adjustment of inflation. The sustained agricultural growth has provided momentum to the development of the fertilizer industry and a favourable environment for the business of the Group. In addition, rising prices of both grains and fertilizers on the global markets also uplifted the prosperity of the Chinese fertilizer market, which featured brisk trading and steadily rising price.

Under such a background and with the correct leadership of the Board, the Group made further efforts in pushing forward the strategy of "centering on marketing and distribution and expanding into both production and network distribution", and adopted a series of measures to enlarge industrial base for increased product supply and to strengthen distribution capabilities. The Group also overcame such difficulties as rising fertilizer production cost caused by surging oil prices and increasing logistics cost due to soaring ocean freight, and achieved some strategic progresses and remarkable results.

Financial Highlights

In 2007 the Group's turnover rose to HK$29,437 million, up by 39.34% year on year; excluding the adjustment of the loss in fair value of derivative component of convertible loan notes which has no effect on the cash flow of the Group, net profit was HK$1,286 million, up by 43.24% year on year, and EPS reached 21.44 HK cents, up by 38.68% year on year. If the loss in fair value of derivative component of convertible loan notes was included, the Group's net profit was HK$663 million, which represented a decrease of 25.99% year on year.

Product Operations

In 2007 the Group's sale volume rose by 20.55% to 15.16 million tons, which further consolidated our market position as the largest fertilizer distributor and agrichemical service provider in China.

Among this, sales volume of potash fertilizers amounted to 5.69 million tons, up by 24.88% year on year, uplifting the Group's share in the Chinese potash market to 55% from that of 45% in 2006 and improving further the competitive strengths of the Group. Such a result was mainly attributable to the Group's strengths in its strategic alliances with international potash suppliers and in its matured distribution network, as well as to the early conclusion of the 2007 potash contract negotiations.

Sales volume of nitrogen fertilizers went up by 26.74% to 4.70 million tons, bringing the Group's share in the Chinese urea market up to 10% from that of 8% in 2006. This was mainly attributable to the implementation of the supply chain management strategy, which broadened the supply system composed of suppliers in which the Group has equity interest, suppliers with long term contract and regional supplementary suppliers. In 2007 the Group made strategic investment in China XLX Fertiliser Ltd, which is a listed company in Singapore Exchange Limited, and further consolidated our alliances with nitrogen suppliers.

Management Review and Prospect

Sales volume of phosphate fertilizers and compound fertilizers was increased by 22.62% to 4.16 million tons. This was mainly attributable to the Group's enhanced strength in the integrated production and distribution strategy in the phosphate and compound fertilizer business sector, as well as enlarged alliance with other phosphate and compound fertilizer suppliers, which jointly expanded the Group's supply base.

In addition, the Group's sulphur export and distribution business had become an important player in the Chinese sulphur market thanks to the efforts made in the past few years in this aspect, which made a significant contribution to sulphur supply in the Chinese market and the growth of the Group's business results. Meanwhile, the Group's export business also made a rapid growth promoted by the continuous expansion of fertilizer production capacity in China and surging fertilizer prices in the international markets.

Fertilizer Production

In 2007 the Group successfully acquired the interest held by Sinochem Corporation in Salt Lake Potash Co., Ltd, Tianji Sinochem Gaoping Chemical Engineering Co., Ltd, and in Sinochem Shandong Chemical Fertilizer Co., Ltd, and in Gansu Wengfu Chemical Co., Ltd. These acquisitions brought the number of fertilizer production enterprises in which the Group had equity interest increased to eleven, boosting the Group's fertilizer production capacity to 7.85 million tons in total, which was 4.82 million tons more than that at the end of 2006. Today the Group has become one of the largest fertilizer producers in China.

In 2007, fertilizer production enterprises in which the Group had equity interest actively carried out the "energy saving and emission reduction" work and achieved satisfactory progress following the principle of "recycling economy." Sinochem Chongqin Fuling Chemical Fertilizer Co., Ltd, in which the Group has a controlling interest, was capable of recovering phosphorous resource from waste water by the recycling use of water resource, and turning residual heat into power generation, therefore achieving both economical and social benefits.

Distribution Network

In 2007 the Group continued to fulfill its strategic goal of setting up 2,000 distribution centers in 1,800 major Chinese agricultural counties, with 297 new distribution centers added, making the total number of distribution centers to 1,672 throughout the country. Now the Group's distribution network covers the major agricultural counties in 26 provinces, reaching 91% of China's total farming land.

In 2007 sales volume realized through the distribution network amounted to 9.79 million tons, up by 24.55% over that of 2006. The quality and efficiency of the distribution network were both improved. The Group's customer base featuring customers at the township level as a core further expanded, with total number of such customers rising to over 28,000. All this has further consolidated the foundation for the distribution network to enhance its service capabilities and market share.

Management Review and Prospect

The Group has made it a long term strategic program to provide various services to the farmers. In 2007 the Group carried out activities for public welfare such as "promoting formula fertilization through soil testing and setting up model villages for scientific fertilization" and "10,000 movie shows in 100 counties." These activities were favourably reported by Xinhua News Agency and other prominent medium organizations. In 2007 the Group sponsored over 3,000 events to promote scientific fertilization among the farmers, and set up another 360 model villages for scientific fertilization, increasing the total number to 535 villages. All these activities not only promoted sales and the Company's brand value, but also uplifted the image of the Group as a socially responsible entity.

Internal Control and Management

The Group has always attached top priority to the safeguard of shareholders' asset value, and made the setting up of a sophisticated and standardized internal control and management system as the core for the long term and healthy growth of the Company. In 2007 the Company further improved its internal control and risk management system and strengthened its internal auditing work under the COSO Internal Control Framework. High vigilance was maintained on the work of risk management, production safety and environmental protection. As a result, there were no significant risk or safety accident in 2007.

Furthermore, the Group specifically improved its internal control system for the distribution network, and consolidated the vertical management of inventory and cash flow related to the distribution network. Meanwhile, the project of standardizing the building and operations of the distribution network was initiated to safeguard the operation safety of the distribution network.

Strategic Planning

In 2007, on the basis of a thorough analysis of the trend of global fertilizer industry development, the Group successfully carried out the yearly revision work of the Three-Year (2008-2010) Strategic Development Plan (the "Plan").

According to the Plan, the Group will continue to push forward the strategy of "centering on marketing and distribution and expanding into both production and network distribution", and further enlarge its production scale, distribution network and logistics capabilities so as to achieve greater profit contributions by the production sector, more value-added of the distribution network and the strategic value of the logistics system.

Management Review and Prospect

Outlook

In 2008 the Chinese Government is expected to further increase its support to the development of the rural areas, the farmers and the agricultural sector, with ear-marked capital expenses in these areas to reach RMB562.5 billion, which is an increase of 30.3% over the previous year. Such incentive policies will boost the steady increase in the demand for fertilizers and other agricultural inputs, therefore creating a favourable environment for the development of the Group. However, the growth of the Group is also facing the challenges of rising cost of fertilizer production caused by surging oil price and the risks resulted in government policies regulating fertilizer export and the domestic fertilizer market.

Under the leadership of the Board, the Group will always be committed to maximize shareholders' value, and keep forging ahead along the strategy of "centering on marketing and distribution and expanding into both production and network distribution." We will work harder to enlarge the industrial base, uplift the scale and quality of the distribution network, improve the strategic value of the logistics system, and bring into full play of the integrated business model of the Group. In summary, the Group is committed to fulfill its various business goals through the implementation of its product strategy and internal control mechanism, as well as carrying out meticulous management so as to bring about higher returns for the shareholders.







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Management Discussion and Analysis

For the twelve months ended 31 December 2007, sales volume of the Group reached 15.16 million tons, turnover was HK$29,437 million, representing an increase of 20.55% and 39.34%, respectively, over the corresponding period of 2006.

For the twelve months ended 31 December 2007, gross profit of the Group reached HK$2,769 million, representing an increase of 62.20%, while net profit was HK$663 million, falling 25.99% over the corresponding period of 2006. While excluding the loss in fair value of derivative component of the convertible loan notes, net profit was HK$1,286 million, which represented a year-on-year increase of 43.24%.

I. Operation Scale

1. Sales volume

For the twelve months ended 31 December 2007, sales volume of the Group reached 15.16 million tons, up by 20.55% over the corresponding period of 2006. Among which, sales of imported fertilizers was 5.95 million tons and domestic fertilizers was 8.61 million tons, up by 12.26% and 35.26% respectively as compared with the same period of last year.

In terms of product structure, sales of potash recorded a 24.88% year-on-year increase, further strengthening its market leading position; sales of nitrogen fertilizers was up 26.74%, the market influence of which was therefore enhanced. In line with market change, the Group had achieved successful breakthrough by leveraging on supply of phosphoric acid while at the same time vigorously expanded the export of phosphate fertilizers in view of the shortage of supply in the international market, thereby pushing up the sales of phosphate fertilizers by 51.64% year on year. The sales of compound fertilizers remained basically the same as that of last year.

2. Turnover

For the twelve months ended 31 December 2007, turnover of the Group reached HK$29,437 million, up by HK$8,310 million over the corresponding period of 2006, rising 39.34%, which was higher than the 20.55% increase of sales volume. This was mainly attributable to the surge of prices in fertilizers market. The Group's average selling price was 15.58% higher as compared with the same period of last year.

Table 1:

	For the twelve months ended 31 December			
	2007		2006	
	Turnover *HK$'000*	**As percentage of total turnover**	Turnover *HK$'000*	As percentage of total turnover
Potash fertilizers	**12,335,139**	**41.90%**	8,545,679	40.45%
Nitrogen fertilizers	**7,149,811**	**24.30%**	5,156,519	24.41%
Compound fertilizers	**4,082,587**	**13.87%**	3,889,163	18.41%
Phosphate fertilizers	**4,749,334**	**16.13%**	2,813,010	13.31%
Others	**1,119,963**	**3.80%**	722,200	3.42%
Total	**29,436,834**	**100.00%**	21,126,571	100.00%

II. Profit

1. Gross profit and gross profit margin

For the twelve months ended 31 December 2007, gross profit of the Group was HK$2,769 million, representing an increase of HK$1,062 million or 62.20% as compared with 2006.

The Group adopted different strategies for different products:

1. The potash business maintained a stable profit margin through solidifying and expanding both international and domestic supply channels and customer resources;

2. Nitrogen fertilizers were generally subject to greater price volatility in the PRC market. The gross profit margin of nitrogen fertilizers slightly decreased by 0.96 percentage point in 2007 as compared with last year, but the Group maintained a relative stable profitability level on nitrogen fertilizers. Between 2005 and 2007, its gross profit margin was between 4% and 5%;

3. In 2007, the price of phosphate fertilizers surged both at domestic and international markets, leading to a shortage supply of phosphate fertilizers. However, thanks to the Group's strategy of "centering on marketing and distribution and expanding into both production and nework distribution", the gross profit margin of phosphate fertilizers increased significantly as compared with last year.

Overall, the Group's gross profit margin was 9.41% for the year ended 31 December 2007 and profitability remained stable.

Management Discussion and Analysis

2. Share of results of jointly controlled entities

For the twelve months ended 31 December 2007, the share of results of jointly controlled entities of the Group was HK$56 million, which was mainly from Hubei Sinochem & Orient Fertilizer Co., Ltd, Guiyang Sinochem Kailin Fertilizer Co., Ltd, Yunnan Three Circle-Sinochem-Cargill Fertilizer Co., Ltd and Gansu Wengfu Chemical Co., Ltd. This figure was up by HK$15 million or 36.22% from that of HK$41 million for the corresponding period of 2006. This was mainly the result of stringent supply of phosphate fertilizers and higher prices in the international market, leading to the increase in industrial average profitability and greater contribution to the Company.

3. Income tax expense

For the twelve months ended 31 December 2007, income tax expense of the Group was HK$325 million, and the taxation burden was 32.15%. Taxation burden excluding the change in fair value of derivative component of convertible loan notes was 19.88%, as compared to 9.88% in 2006.

The subsidiaries of the Group were registered in China mainland, Macao and Hong Kong respectively, where profit tax rates vary. Among them, the tax rate of China mainland is 33%, the Group's profit derived from Macao is exempted from profit tax, while Hong Kong profit tax rate is 17.5%. The Company strictly abides by the taxation laws of the three jurisdictions and pays taxes accordingly. The increase in taxation burden in 2007 was mainly caused by a price surge in the domestic market and expansion of the Group's domestic fertilizer operation, thus resulting in greater domestic profit and increased in overall taxation burden.

4. Net profit and net profit margin

For the twelve months ended 31 December 2007, the Group realized net profit of HK$663 million, down by 25.99% or HK$233 million from that for the corresponding period of 2006. Net profit excluding the change in fair value of derivative component of convertible loan notes was HK$1,286 million, representing an increase of HK$388 million or 43.24% as compared with the corresponding period of last year. This was mainly attributable to an enlarged sales volume of 20.55%. The gross profit margin was up by 1.33 percentage points over that of 2006 and meanwhile the allowance for the loss in fair value of derivative component of convertible loan notes reduced the net profit by HK$623 million.

For the year ended 31 December 2007, the net profit margin was 2.25%, net profit margin excluding the change in fair value of derivative component of convertible loan notes was 4.37%, still maintaining a stable profitability level of 4-5%.

III. Expenditures

Selling and distribution expenses for the twelve months ended 31 December 2007 was HK$585 million, up by HK$50 million or 9.30% over that of HK$535 million for the corresponding period of 2006. It was mainly attributed to the increase in sales volume which incurred proportionally higher expenses in logistics such as transportation and warehousing.

Management Discussion and Analysis

Administrative expense for the twelve months ended 31 December 2007 was HK$268 million, up by HK$81 million or 43.26% from that of HK$187 million for the corresponding period of 2006. It was mainly due to an increase in staff expenses and rental expenses as a result of expansion of distribution network.

Finance cost for the twelve months ended 31 December 2007 was HK$269 million, up by HK$140 million or 109.02% over that of HK$129 million for the corresponding period of 2006, which was mainly due to greater demand on capital caused by a 20.55% increase in operation scale. Meanwhile, in terms of borrowing interest rate in 2007 as compared with 2006, Renminbi benchmark lending rate has increased by approximately 1.35 percentage points, leading to higher finance cost. On the other hand, interest expense for convertible loan notes for the year ended 31 December 2007 was HK$76 million, increasing by HK$43 million as compared with 2006 year on year.

IV. Cash Flow

Cash inflow of the Group for the twelve months ended 31 December 2007 was HK$29 million, which includes:

1. a cash outflow of HK$723 million to operating activities owing to greater capital occupation caused by higher inventories;

2. a cash outflow of HK$2,871 million to investment activities, i.e., HK$2,242 million for acquisition of fertilizers assets from the ultimate holding company, HK$328 million for purchase of property, plants and equipment, HK$198 million for available-for-sale investment, HK$167 million for investment in a jointly controlled entity, HK$23 million from dividend received, HK$35 million from interest received, etc;

3. a cash inflow of HK$3,623 million from financing activities, i.e., net proceeds of HK$2,322 million received from share issue, HK$1,379 million from bank borrowing, HK$882 million from bills discounted to banks, HK$626 million from settlement on conversion of convertible loan notes, HK$209 million in interest paid, HK$134 million in dividend payout, etc.

V. Inventory Turnover

The inventory balance of the Group as at 31 December 2007 was HK$6,943 million, increasing by HK$2,578 or 59.08% from HK$4,365 million as at 31 December 2006, mainly due to increased unit inventory cost.

Due to faster turnover rate, inventory turnover day[(note)] decreased from 85 days in 2006 to 76 days in 2007, thus improving assets operating efficiency.

In terms of inventory structure, potash inventory accounted for 53.50% of our total inventory. Since potash fertilizer is a core commodity of the Group and the PRC is in lack of potash resource, therefore maintaining a higher inventory level of potash fertilizers is crucial both in respect of guaranteeing domestic supply of potash fertilizers and the profitability of the Group.

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

Management Discussion and Analysis

VI. Trade and Bills Receivable

The balance of the Group's trade and bills receivable as at 31 December 2007 was HK$1,223 million, representing a slight decrease from that of HK$1,272 million as at 31 December 2006.

As a result of operation expansion, trade and bills receivable turnover day[note] decreased from 18 days in 2006 to 15 days in 2007.

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 360 days.

VII. Interests in Jointly Controlled Entities

As at 31 December 2007, the balance of the Group's interests in jointly controlled entities was HK$617 million, increasing by 61.78% over that of HK$382 million as at 31 December 2006. This was mainly caused by:

1. further investment of HK$150 million in Yunnan Three-Circles Sinochem Fertilizer Co., Ltd.;

2. an investment of HK$24 million in Gansu Wengfu Chemical Co., Ltd.;

3. an increase of HK$59 million of interests arising from using the equity method of accounting; and

4. a dividend payment of HK$23 million received from investment in Yunan Three Circle-Sinochem-Cargill Fertilizer Co., Ltd..

VIII. Available-for-Sale Investments

As at 31 December 2007, the balance of the Group's available-for-sale investments was HK$1,258 million, while the figure as at 31 December 2006 was HK$290 million. The increase of HK$968 million or 333.16% was mainly attributable to:

1. the Group's acquisition of equity interest in China XLX Fertiliser Ltd ("China XLX") which represented 4.99% of its total equity upon issue at a consideration of HK$197 million in June 2007;

2. share appreciation of HK$751 million as a result of the revaluation of shares held by the Group as at 31 December 2007 in listed companies including China XLX, Shandong Luxi Chemical Industry Co., Ltd., Shandong Hualu Hengsheng Chemical Co., Ltd. based on their fair value (with reference to listed market prices, discount rate within lock-up period) and number of shares held by the Group on 31 December 2007.

Management Discussion and Analysis

IX. Prepayments to Ultimate Holding Company

As at 31 December 2007, the balance of the Group's prepayments to ultimate holding company was HK$2,242 million, representing the 30% deposit of the consideration for acquisition of equity interests of the three fertilizer assets from Sinochem Corporation, the ultimate holding company of the Company, in accordance with the relevant acquisition agreements. No such amount was incurred in 2006.

X. Prepayments and Other Receivables

As at 31 December 2007, the balance of the Group's prepayments and other receivables was HK$1,902 million, up by HK$608 million or 47.02% over that of HK$1,294 million as at 31 December 2006. This was mainly due to the increased purchase of goods which had not been delivered as at 31 December 2007.

XI. Long and Short-Term Loans

As at 31 December 2007, the balance of the Group's long-term loans was HK$606 million, up by HK$243 million or 66.88% over that of HK$363 million as at 31 December 2006. This was mainly caused by Sinochem Chongqin Fuling Chemical Fertilizer Co., Ltd. ("Sinochem Fuling")'s 2020 (0.2 million ton ammonium and 0.2 million ton urea) expansion project.

As at 31 December 2007, the balance of short-term loans was HK$1,311 million, up by HK$1,212 million as compared with HK$99 million as at 31 December 2006. This was mainly the result of issuance of HK$1,300 million convertible bonds by the Group in 2006 for the use as development fertilizer production business, expansion of distribution network and general working capital and repayment of bank loans. In 2007, such proceeds were used for the acquisition of three fertilizer assets from Sinochem Corporation, working capital was thus financed by bank loans.

XII. Trade and Bills Payables

As at 31 December 2007, the balance of the Group's trade and bills payables was HK$2,118 million, increasing by HK$303 million from that of HK$1,815 million as at 31 December 2006. This was mainly due to expansion of operation and corresponding increase in purchasing volume.

XIII. Receipts in Advance and Other Payables

As at 31 December 2007, the balance of the Group's receipts in advance and other payables was HK$1,881 million, increasing by HK$942 million or 100.36% over that of HK$939 million as at 31 December 2006. This was mainly attributable to an increase in receipts in advance by Sinochem Fertilizer Co. Ltd and Sinochem Fuling from the customers.

Management Discussion and Analysis

XIV. Convertible Loan Notes

The Company issued 130,000 zero coupon notes with face value of HK$10,000 each on 7 August 2006.

For the year ended 31 December 2007, the notes with total face value of HK$391 million were exercised, of which, HK$10 million was converted into 2,673,796 ordinary shares of HK$0.1 par value per share of the Company; HK$381 million was settled in cash, amounting to approximately HK$626 million in cash. As at 31 December 2007, the total face value of outstanding loan notes was HK$909 million.

According to related accounting standards in Hong Kong, the Company appointed CB Richard Ellis Limited for an independent assessment on fair value of the outstanding convertible loan notes. The loss arising from conversion of convertible loan notes, the loss arising from change in fair value of derivative component of the convertible loan notes and the finance cost amortized to the convertible loan notes was HK$203 million, HK$623 million and HK$76 million, respectively, which were recorded in consolidated income statement of the reporting period.

XV. Other Financial Indicators

Earnings per share (EPS) for the twelve months ended 31 December 2007 was 11.06 HK cents. EPS excluding the change in fair value of derivative component of convertible loan notes was 21.44 HK cents, increasing by 38.68% over the corresponding period of 2006. Return on equity (ROE) for 2007 was 8.30%. ROE excluding the change in fair value of derivative component of convertible loan notes was 16.11%, down by 4.54 percentage points as compared with the same period of 2006. This was mainly attributable to increase in profit, increase in capital and issue of shares, appreciation of available-for-sale investment and growth in net assets by 83.68% as compared with the same period of last year.

Table 2:

	2007	2006
Profitability		
EPS (HK cents) *(Note 1)*	**11.06**	15.43
EPS (HK cents) *(Note 2)*	**21.44**	15.46
Return on Equity *(Note 3)*	**8.30%**	20.61%
Return on Equity *(Note 4)*	**16.11%**	20.65%

Note 1: *Calculated on the basis of net profit attributable to the Shareholders of the Company 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 attributable to the Shareholders of the Company for the reporting period (excluding minority interests, change in fair value of derivative component of convertible loan notes) divided by weighted average number of shares for the reporting period.*

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

Note 4: Calculated on the basis of net profit attributable to the Shareholders of the Company for the reporting period (excluding minority interests, change in fair value of derivative component of convertible loan notes) divided by total equity as at the end of the reporting period (excluding minority interests).

For the year ended 31 December 2007, current ratio was 1.49, short-term liquidity decreased; debt-to-equity ratio was 34.41%, long-term liquidity increased. Long-term and short-term liquidity remained at a stable and healthy level.

Table 3:

	2007	2006
Solvency		
Current ratio *(Note 1)*	**1.49**	1.93
Debt-to-equity ratio *(Note 2)*	**34.41%**	37.03%

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

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

XVI. Liquidity and Financial Resources

The Group's principal sources of financing included cash generated from operations, bank borrowings and proceeds from the issue of new shares and bonds. 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 2007, cash and cash equivalents of the Group were HK$122 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 4:

	As at 31 December 2007 ***HK$'000***	As at 31 December 2006 *HK$'000*
Secured	**99,317**	53,747
Guaranteed	**21,924**	19,906
Unsecured	**1,795,531**	388,617
Total	**1,916,772**	462,270

Management Discussion and Analysis

Table 5:

	As at 31 December 2007	As at 31 December 2006
	HK$'000	*HK$'000*
Within one year	**1,310,728**	99,118
Within 2-5 years	**520,611**	363,152
Over 5 years	**85,433**	–
Total	**1,916,772**	462,270

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

As at 31 December 2007, the Group had banking facilities of HK$11,675 million, including US$495 million, RMB7,316 million, and HK$1.1 million, dominated in respective currencies. The amount of banking facilities already used was US$326 million, RMB1,713 million and HK$1.1 million, and that of unused was US$169 million and RMB5,603 million.

XVII. Operation and Financial Risks

The Group's major operation risks include: uncertainties of the upcoming controlling measures despite the announced Chinese Government's policies on the fertilizer industry; uncertainties of its impact on the fertilizer industry; price fluctuations of the fertilizer market; as well as uncertainties caused by government influence as shown in the 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.

XVIII. Contingent Liabilities

As at 31 December 2007, the Company issued a guarantee in favour of a bank in the amount of HK$3,929 million in return for the bank's granting of general banking facilities to certain subsidiaries of the Company.

The Group had no material contingent liabilities.

XIX. Capital Commitment

Table 6:

	As at 31 December 2007 *HK$'000*	As at 31 December 2006 *HK$'000*
Assets under construction		
Contracted but not provided for	**505,126**	187,404
Authorized but not contracted for	**473,292**	21,655
Sub-total	**978,418**	209,059
Investment in jointly-controlled entities		
Investment in Yunnan Three-Circles Sinochem Fertilizer Co., Ltd.	**–**	139,345
Acquisition of equity interests in Qinghai Salt Lake Potash Co. Ltd, Sinochem Shandong Chemical Fertilizer Co., Ltd, and Tianji Sinochem Gaoping Chemical Engineering Co., Ltd	**5,236,096**	–
Total	**6,214,514**	348,404

Management Discussion and Analysis

XX. Major Investments

As at 31 December 2007, the Group's major investments amounted to HK$2,793 million, among which:

1. HK$2,242 million was used for 30% deposit of consideration for acquisition of equity interests in three fertilizer assets from Sinochem Corporation, the parent company;

2. HK$197 million was used for acquisition of equity interests in China XLX;

3. HK$181 million was used for investment in Sinochem Fuling;

4. HK$150 million was used for investment in Yunnan Three-Circles Sinochem Fertilizer Co., Ltd.;

5. HK$24 million was used for acquisition of 30% equity interests in Gansu Wengfu Chemical Co., Ltd.

Chronicle of Events

1. In January 2007, the Board approved the Group's 2007-2009 Three-Year Strategic Development Plan.

2. In February 2007, the annual potash contract negotiations were concluded. The Group signed potash purchase contracts with international suppliers BPC, CANPOTEX, DSW and APC, respectively.

3. In March 2007, DAP plant with annual production capacity of 600,000 tons successfully went into production at Guiyang Sinochem-Kailin Fertilizer Co., Ltd.

4. In March 2007, the Group launched a three-month promotional program to boost customer loyalty for Sinochem Canadian potash in the name of "30 years of trust in Canadian potash and 30 years of Sinochem services." Through organizing lectures and road-shows on agricultural services, and the building of "Sinofert model villages of scientific fertilizer application", the brand awareness of Sinochem Canadian potash was further enhanced among the farmers.

5. In April 2007, the Group published its 2006 Annual Report.

6. In April 2007, the agrichemical service activities conducted by the Group featuring soil testing for balanced fertilizer application and building "model villages" in such work were widely reported and publicized by major national mass media organizations, including Xinhua News Agency, People's Daily, CCTV, the Central People's Broadcasting Station, Economic Daily, Guangming Daily and Farmers' Daily.

7. In April 2007, with the assistance of China Film Corporation the Group launched the three-month movie-show program to introduce good movies and science and education films to the farmers. A total of 10,000 movie shows were planned to put on in 100 counties in China, directly benefiting over three million viewers.

8. In May 2007, Mr. Du Ke Ping, CEO of the Company, headed the Sinofert delegation and attended the 75th annual meeting of the International Fertilizer Industry Association (IFA) held in Istanbul, Turkey. During the meeting, Mr. Du and the delegation members met with delegates from over 50 international fertilizer suppliers and traders to discuss mutual cooperation.

9. In June 2007, the Group subscribed 49.90 million new shares of China XLX Fertiliser, Ltd (Singapore Exchange Stock Code: CXLX) at S$0.77 per share, which is 4.99% of its total issued shares.

10. In June 2007, the Group signed a strategic cooperation agreement with China UnionPay on banking card payment collection, under which the POS "Group Customer Service System" was put into use in all the distribution centers of the Group nationwide.

11. In June 2007, the annual general meeting of the Shareholders of the Company was held.

Chronicle of Events

12. In July 2007, the Company successfully placed 400 million shares at the price of HK$5.9 per share through a top-up placing, raising approximately HK$2,322 million in cash.

13. In August 2007, the Company announced its 2007 Interim Report.

14. In October 2007, the Company signed an acquisition agreement with Sinochem Corporation to purchase the 141,907,561 ordinary shares, or 18.49% of the total issued share capital of Qinghai Salt Lake Potash Co., Ltd held by Sinochem Corporation, at the price of RMB47.49 per share.

15. In November 2007, the Group entered into a joint venture agreement with Guizhou Hongfu Industrial Development Co., Ltd and Gansu Jinchang Chemical Industrial (Group) Co., Ltd through subscription for 30% equity of Gansu Wengfu Chemical Co., Ltd.

16. In November 2007, the Group signed a cooperation agreement with Yantai Port Group Limited for the construction of a logistics center.

17. In November 2007, the Company signed acquisition agreements with Sinochem Corporation for the purchase of 40% equity interest in Tianji Sinochem Gaoping Chemical Engineering Co., Ltd. and 51% of equity interest in Sinochem Shandong Chemical Fertilizer Co., Ltd., respectively.

18. In December 2007, the Group sponsored an agrochemical and agro-technical promotion program initiated by the Department of Science and Education under the Ministry of Agriculture, which aimed to give out for free 15,000 copies of handbooks for agro-technicians and 300,000 copies of handbooks for model farmers.

19. In December 2007, at the Company's Special General Meeting of the shareholders, the proposed acquisitions of equity interest in Qinghai Salt Lake Potash Co., Ltd., Sinochem Shandong Chemical Fertilizer Co., Ltd. and Tianji Sinochem Gaoping Chemical Engineering Co., Ltd. from Sinochem Corporation was approved, and the proposal for placing a total of 714,285,714 new shares to Sinochem Hong Kong (Group) Company Limited and PotashCorp, two substantial shareholders of the Company, was also approved.

Directors and Senior Management

Directors

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

Mr. LIU De Shu, aged 55, joined the Company as the Chairman of the Board 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 was appointed to be the President and Chief Executive Officer of Sinochem Corporation, the immediate holding company of Sinochem Hong Kong (Group) Co., Ltd. Before, He had been 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 Co., Ltd, respectively.

Mr. Liu has over 23 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 11th 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 59, joined the Company in August 2001 and is Deputy Chairman of the Board 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) Co., Ltd.

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

Mr. DU Ke Ping, aged 46, is an Executive Director and Chief Executive Officer of the Company. He graduated from the accounting faculty 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 officer of the Ministry of Foreign Trade and Economic Cooperation (the predecessor of the Ministry of Commerce), and had served at KPMG. During his 18-year service term at Sinochem Corporation, he had held a number of senior positions. He had been the deputy general manager of finance department in America West Pacific Refinery Co., deputy general manager in Sinochem Rubber Co., Ltd deputy general manager of Sinochem International Fertilizer Trading Company, general manager of Sinochem Yu Hua Loong Trading SDN. BHD., general manager of rubber division of Sinochem International Co., Ltd and assistant president of Sinochem Corporation. He was appointed as the general manager of Sinochem International Fertilizer Trading Company in 1999 and was later promoted to Vice President of Sinochem Corporation and 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 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 45, 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 relations and property operations. Mr. Yang had served at Sinochem Corporation for over 19 years.

Dr. CHEN Guo Gang – Non-executive Director

Dr. CHEN Guo Gang, aged 48, is currently a Non-executive Director of the Company. Dr. Chen graduated from the accounting faculty 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 Finance Department, vice president of China United Petrochemical Co., and general manager of Finance Department of Sinochem Corporation. Dr. Chen now serves as the Chief Financial Officer of Sinochem Corporation and is responsible for finance, risk management and insurance of Sinochem Corporation. Dr. Chen has a profound understanding on finance management, international financing, capital management and corporate risk control. He is also a director of Sinochem International Co., Ltd (listed on the Shanghai Stock Exchange).

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 57, joined the Company in July 2005 as a Non-executive Director. He is currently the Senior Vice President of Fertilizer Sales for PCS Sales (USA) Inc., 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 the 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 carried out advance field research at Central China Agricultural University in Wuhan, China. Dr. Dowdle has over 22 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 70, joined the Company in March 2006 as a Non-executive Director. He graduated from the University of Wisconsin with a Bachelor's Degree in Economics in 1959 and from the Northwestern University with a Master Degree in Business Administration in 1961. Mr. Fetzer III is experienced in the areas of finance. After 10 years in the field of investment banking and management consultancy, Mr. Fetzer III joined Goldman Sachs in 1971 and became a general partner 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 III 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 the Chairman of Nomination Committee

Mr. KO Ming Tung, Edward, aged 47, joined the Company in April 2000 as an Independent Non-executive Director. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ko obtained a Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. He is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 17 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, the Solicitors Disciplinary Tribunal Panel and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. Currently, he is also a manager of Chiu Chow Association Secondary School.

Mr. Ko is currently an independent non-executive director of Kai Yuan Holdings Limited and China Pipe Group Limited, and a non-executive director of New Smart Energy Group Limited, all of which are companies whose shares are listed on the Stock Exchange of Hong Kong Limited. During the past three years, Mr. Ko was also an independent non-executive director of Thiz Technology Group Limited.

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

Dr. TANG Tin Sek, aged 49, joined the Company in April 2000 as an Independent Non-executive Director. He is also the Chairman of the Remuneration Committee, and the member of the Audit Committee and the Nomination Committee of the Company. Dr. Tang 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. Dr. Tang is a Certified Public Accountant and a partner of Terence Tang & Partners. He has over 27 years' experience in corporate finance, business advisory, financial management and auditing. Dr. Tang is 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.

Other than the directorship in the Company, currently, Dr. Tang is also an independent non-executive director of CEC International Holdings Limited, New Smart Energy Group Limited, Frankie Dominion International Limited and Interchina Holdings Company Limited, all of which are companies whose shares are listed on the Stock Exchange.

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

Mr. TSE Hau Yin, Aloysius, aged 60, joined the Company in June 2007 as an Independent Non-executive Director. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Tse is a fellow member of The Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is a graduate of the University of Hong Kong.

Currently, Mr. Tse is also an Independent Non-executive Director of China Construction Bank Corporation, CNOOC Limited, China Telecom Corporation Limited, Wing Hang Bank, Limited and Linmark Group Limited, all of which are companies whose shares are listed on the Stock Exchange. Mr. Tse is also the Chairman of the International Advisory Council of The People's Municipal Government of Wuhan.

Directors and Senior Management

Senior Management

Mr. ZHANG Bao Hong – Chief Financial Officer

Mr. ZHANG Bao Hong, aged 41, 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 in 2005. Mr. Zhang joined Sinochem Corporation in 1988 and had served as the financial controller of Sinochem Japan Co., Ltd. Mr. Zhang was appointed as general manager of the Finance Department of Sinochem Fertilizer Company 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 40, 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 obtained an FMBA degree jointly granted by Tsinghua University and the Chinese University of Hong Kong in 2004. In 1990 Mr. Li joined China National Agricultural Means and Production Company (CNAMPGC), and joined Sinochem Fertilizer Company in February 2003. Mr. Li was promoted to deputy general manager of Sinochem Fertilizer Company in November 2003, and was promoted to the present position in December 2005.

Mr. WANG Tie Lin – Deputy General Manager

Mr. WANG Tie Lin, aged 41, is Deputy General Manager of the Company. Mr. Wang graduated from Faculty 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 joined Lion Fund Management Co., Ltd, of which Sinochem Corporation, the ultimate holding company of the Company, is a shareholder, in 2003. Mr. Wang joined Sinochem Fertilizer Company as Deputy General Manager of Sinochem Fertilizer Company and Deputy General Manager of the Company in May 2006.

Mr. SHEN Qi – Deputy General Manager

Mr. SHEN Qi, aged 35, 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 an EMBA degree in Cheung Kong Graduate School of Business in 2007. He joined Sinochem Corporation in 1995, and then joined Sinochem Fertilizer Company in 1997 as departmental manager. In November 2003, Mr. Shen was appointed as deputy general manager of Sinochem Fertilizer Company, and was promoted to the present position in August 2005.

Directors and Senior Management

Mr FENG Ming Wei – Deputy General Manager

Mr FENG Ming Wei, aged 44, is Deputy General Manager of the Company. Mr. Feng graduated from Beijing University of Iron and Steel Technology specializing in automation in 1987 and was an employed research student majoring in international economic studies in Renmin University of China. In 1984, he joined Sinochem Corporation, in which he had held positions in finance department and Sinochem representative office in Pakistan. He further promoted to be sales manager in the business department of SC Polymers Inc and the deputy general manager of Sinochem Plastic Company. Mr. Feng joined Sinochem Fertilizer Company in December 2001, he had held the positions of deputy general manager of Import department, general manager of fertilizer department No.1, and assistant to general manager of the Company. Mr. Feng was promoted to the present position in May 2007.

Ms. CHEN Yi Qing – Director of Human Resources

Ms. CHEN Yi Qing, aged 36, 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 Sinochem Fertilizer Company in March 2001. Ms. Chen was appointed general manager of the Human Resources Department of Sinochem Fertilizer Company in November 2003, and promoted to the present position in August 2005.


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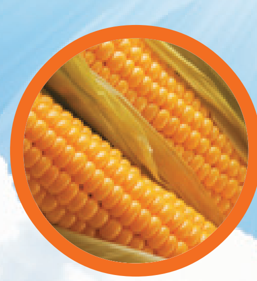


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Corporate Governance Report

Recognising the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited (the "Company") is committed to maintain a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practice on corporate governance, and to comply with the Code on Corporate Governance Practices (the "Code on Corporate Goverance Practices") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

Compliance with the Code on Corporate Governance Practices

The Company has established Audit Committee and Remuneration Committee in compliance with the code provisions in the Code on Corporate Governance Practices of the Listing Rules issued by the Stock Exchange, established Nomination Committee in accordance with the recommended best practices contained in the Code on Corporate Governance Practices, and has determined the terms of references of the committees in accordance with the relevant provisions.

For the year ended 31 December 2007 and up to the date of this report, the Company has fully complied with the code provisions in the Code on Corporate Governance Practices.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of 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.

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 enhancing value for shareholders is a duty of the Directors.

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

- approve and monitor strategic plans;
- review of financial performance and results;
- review of dividend policy;
- approve/monitor major acquisitions, investment, asset transactions and any other significant expenditures; and
- supervise internal risk policy.

Corporate Governance Report

The Directors are responsible for overseeing the preparation of the annual consolidated financial statements which give a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2007, the Directors have:

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

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

The Board currently comprises two Executive Directors and eight Non-executive Directors (three of them are Independent Non-executive Directors). The biographical details of all the Directors (including the Chairman, Chief Executive Officer, Executive Directors, Non-executive Directors and Independent Non-executive Directors) are set out on pages 29 to 31 of this annual report. For the year ended 31 December 2007, Mr. Liu De Shu, Mr. Song Yu Qing and Dr. Chen Guo Gang each held directorships or other positions in Sinochem Corporation (the ultimate controlling shareholder of the Company), its subsidiaries and/or its associated companies; Mr. Harry Yang is a Director of US Agrichemical Corp. (a member company of Sinochem Corporation, whose business ceased operation in November 2005).

The company's Non-executive Directors, Dr. Stephen Francis Dowdle and Mr. Wade Fetzer III, are nominated by Potash Corporation of Saskatehewan Inc. ("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.

The Board has requested the management team to handle daily operational matters under the instruction and supervision of the Chief Executive Officer. Mr. Liu De Shu, as the Chairman, is responsible to lead and ensure the effective management of the Board. Mr. Du Ke Ping, acting as the Chief Executive Officer, is responsible for the effective implemention of the policies formulated by the Board and the management of the businesses and operations of the Company.

Corporate Governance Report

The Company has three Independent Non-executive Directors with relevant professional qualifications or accounting expertise. In this respect, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules. In order to comply 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 considers that all the Independent Non-executive Directors are independent with the Company.

Pursuant to the bye-laws of the Company, all 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 be fixed for two years.

For the year ended 31 December 2007, 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 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 *(note i)*	2/2
Dr. Tang Tin Sek	4/4
Mr. Tse Hau Yin, Aloysius *(note i)*	2/2
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	3/4
Executive Directors	
Mr. Du Ke Ping	4/4
Mr. Harry Yang	4/4

note (i) *Dr. Li Ka Cheung, Eric resigned as Independent Non-executive Director on 28 June 2007. Mr. Tse Hau Yin, Aloysius was appointed as Independent Non-executive Director on 28 June 2007.*

Audit Committee

The Audit Committee was established in 1999. Its current members comprise: Mr. Tse Hau Yin, Aloysius (Chairman), Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek, all being independent Non-executive Directors of the Company.

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 remuneration of auditors and terms of engagement, and handle any issues regarding their resignation or dismissal;
- to review and monitor 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 completeness of the Group's annual report and accounts, interim report and (if proposed to be issued) quarterly report, and to review significant financial reporting judgments contained therein;
- to review the financial control, internal control and risk management system of the Group;
- to discuss the internal control system with the management to ensure that the management has discharged its duty to maintain an effective internal control system;
- to perform investigations, actively or as instructed by the Board, on significant findings or response from management in respect of the internal control matter;
- to review the financial and accounting policies and practices of the Group;
- to review the auditors' report to management, and any material queries raised by the auditors to the management in respect of accounting records, financial accounts or internal control system and the corresponding management's response; and
- to ensure that the Board provide timely response to the issues raised in the auditors' report to management.

Corporate Governance Report

The Audit Committee met four times during the year ended 31 December 2007. The attendance rates of each of the committee member at these meetings were as follows:

	Attendance rate
Independent Non-executive Directors	
Dr. Li Ka Cheung, Eric *(Chairman) (note ii)*	2/2
Mr. Tse Hau Yin, Aloysius *(Chairman) (note ii)*	2/2
Mr. Ko Ming Tung, Edward	4/4
Dr. Tang Tin Sek	4/4

note (ii) *Dr. Li Ka Cheung, Eric resigned as Chairman of the Audit Committee on 28 June 2007. Mr. Tse Hau Yin, Aloysius was appointed as Chairman of the Audit Committee on 28 June 2007.*

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

- reviewed and commented on the annual report and interim report (including the consolidated financial statements contained therein), and the result announcement of the Company, and recommended the same for Board approval;
- reviewed and discussed significant issues raised in the preparation of the consolidated financial statements;
- recommended the appointment of auditors, the terms of their engagement and the annual audit fees to the Board;
- reviewed the independence of the auditors and discussed the audit plan, scope and relevant responsibility before the commencement of work by the auditors;
- recommended the Board on the appointment of auditors, the terms of their engagement and audit fees for special audits in connection with several acquisitions during the year;
- performed review on the financial control, internal control and risk management system of the Group, and made sufficient communication with the management on related matters;
- met with the auditors separately without the management's participation; and
- reviewed the connected transactions conducted in 2007.

Remuneration Committee

The Remuneration Committee was established in August 2005. The Remuneration Committee currently comprises five members, three of whom are Independent Non-executive Directors, namely Dr. Tang Tin Sek (Chairman), Mr. Tse Hau Yin, Aloysius, Mr. Ko Ming Tung, Edward, and the remaining two members are Dr. Stephen Francis Dowdle, a Non-executive Director and Ms. Chen Yi Qing, the Director of Human Resources of the Company.

The primary responsibilities of the Remuneration Committee are:

- to make recommendations to the Board on the policy and structure of remuneration of directors and senior management and on the 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 to Executive Directors and senior management in connection with any loss or termination of their office or appointment or the compensation arrangements for the dismissal or removal of directors for misconduct;

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

Corporate Governance Report

The Remuneration Committee met two times during the year ended 31 December 2007. The attendance rates of each of the committee member at these meetings were as follows:

	Attendance rate
Independent Non-executive Directors	
Dr. Tang Tin Sek *(Chairman)*	2/2
Mr. Ko Ming Tung, Edward	2/2
Dr. Li Ka Cheung, Eric *(note iii)*	2/2
Non-executive Director	
Dr. Stephen Francis Dowdle	2/2
Director of Human Resources of the Group	
Ms. Chen Yi Qing	2/2

note (iii) *Dr. Li Ka Cheung, Eric resigned as a member of the Remuneration Committee on 28 June 2007.*

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

- discussed the proposal of a long-term incentive program for employees;
- approved the 2007 remuneration package (including cash compensation and bonus) of the Executive Directors and senior management;
- approved the proposal on granting of share options under the share option scheme to Executive Directors and senior management;
- approved the remuneration package (including cash compensation and bonus) of the newly appointed senior management; and
- made recommendation to the Board in respect of the revision of directors' fee of Independent Non-executive Directors.

Remuneration policy of the Group

The key components of the Group's remuneration package include basic salary, and where appropriate other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options granted under the share option schemes of the Company. 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 to employees offered by the Group varies with importance of duties. The higher the importance of duties, the higher will be the ratio of incentive bonus to total remuneration. This can ensure that the Group can recruit, retain and motivate high-caliber employees required for the development of the Group and to avoid offering excess reward.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications experience and performance of the Directors. They include incentive bonus primarily based on the results of the Group and share options granted under the share option schemes of the Company. The Remuneration Committee performs review on the emoluments of the Directors from time to time. No Director, or any of his associates and executive, is involved in deciding his own emoluments.

The Group reviews its remuneration policy annually and engages professional intermediary, if necessary, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 31 December 2007, the Group had about 4,600 full-time employees (including those employed by controlled entities), the remuneration of whom are determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also provided certain non-monetary benefits, such as training, to its employees. In the first half of 2007, the Group provided more than 70,000 hours of training for about 3,000 employees. The training courses covered areas such as operation and management of enterprise, legal and regulations, marketing management, finance, logistics, information technology, quality control, project management and production safety. These training further improve the management skills and professional standard of the management of the Group and enhance the overall quality of the employees to cater for the Group's rapid developments; hence, improves the overall competitiveness of the Group.

Nomination Committee

The Nomination Committee was established in August 2005. It currently comprises four members, three of whom are Independent Non-executive Directors, namely Mr. Ko Ming Tung, Edward (Chairman), Mr. Tse Hau Yin, Aloysius, Dr. Tang Tin Sek, and the other member 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 changes;
- to identify suitably qualified individual to become board members, select or recommend to the Board on the selection of individuals to be 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 once during the year and up to the date of this report. The attendance rates of each of the committee member at the meeting were as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward *(Chairman)*	1/1
Dr. Tang Tin Sek	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Non-executive Director	
Dr. Stephen Francis Dowdle	1/1

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

- discussed and made suggestions on the appointment of a new director to the Board;
- reviewed the structure, size and composition of the Board and made suggestions to the Board;
- reviewed the Directors who will retire in the forthcoming annual general meeting, and made recommendation to the Board on their re-elections; and
- reviewed the independence of the Independent Non-executive Directors and made suggestions to the Board.

The Company has appointed Mr. Tse Hau Yin, Aloysius as Independent Non-executive Director of the Company during the year. The Chief Executive Officer, Mr. Du Ke Ping, recommended Mr. Tse to the Nomination Committee for consideration in May 2007. After considering the experience, qualification and expertise of Mr. Tse, the Nomination Committee resolved, in its meeting held on 15 May 2008, to recommend the appointment of Mr. Tse as Independent Non-executive Director of the Company to the Board. Subsequent to the Board approval, the Directors presented the proposal for such appointment for approval by the shareholders in the annual general meeting held on 28 June 2007.

External Auditors

Deloitte Touche Tohmatsu was appointed as the Company's auditors at the annual general meeting held on 28 June 2007. The fees for audit and audit related services provided by Deloitte Touche Tohmatsu for the year ended 31 December 2007 amounted to HK$4,432,000.

Corporate Governance Report

Financial Management

Being an essential component of corporate governance, the Group continues to pay attentions to the continuing improvements in financial management. In 2007, the Company continued to enhance the financial management in the following aspects: continuously improve internal performance assessment system, optimize fund management of the distribution network, enhance the quality and effectiveness of accounting work in distribution centres via establishment of standards, provide training courses to basic financial personnel, etc. These further enhanced the foundation of the financial management system, improved the quality of management, and ensure effective management for the gradual development of the Company's strategy and business expansion.

In 2007, the Group strengthened the performance assessment and review system for every business unit. Through monthly analysis and quarterly assessment, the Group established a regular review and feedback system, which enhance performance assessment and support the operation strategies of the Group, enhance the implementation of the strategies of each business unit, and further ensure fulfillment of the overall strategies of the Group. In addition, through the implementation of multi-department consolidated performance assessment system, the self-developing capability of each business unit were greatly improved.

In 2007, through the implementation of Cash Management Platform (CMP) jointly developed with Agricultural Bank of China in each distribution centres, the Group further diversified the method of payment and improved its fund management. Through the cooperation with institutions such as UnionPay and Postal Savings Bank of China, the Group improves the payment system network, reduces the administration expenses and minimizes the credit risk of basic customers.

In 2007, the Group reviewed and streamlined the financial management system of subsidiaries and amended the user's handbook of financial personnel of distribution centres, so as to standardize their basic accounting works. Through centralized trainings and on-the-job trainings, it ensured the implementation of the new system and workflow in distribution centres and it also enhanced the effectiveness of fundamental financial works of distribution centres.

In 2007, the Group further strengthened the trainings of financial staff, especially those in the distribution centres. The Group organized a series of trainings, such as new accounting standards, new accounting mechanism, management skills and financial analysis, etc. Through external recruitment and internal job rotation, it realizes an effective mobility of financial staff and provides adequate human resources for normal financial operating system and financial management.

Internal Control

The Board understands its responsibility to establish and maintain effective internal control system and to perform regular review in order to protect the interests of the shareholder and the assets of the Company. During the year, the Board conducted reviews over the Group's internal control, which covered all significant aspects including financial control, operational control, compliance with regulations and risk management functions. The Group submitted and presented the "Report on Internal Control and Risk Management of Sinofert Holdings Limited" to the Audit Committee during the year, and have received recognition from them.

Corporate Governance Report

In compliance with the requirements set out in code provision C.2.1 of the 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 Certified Public Accountants, during the year, the Group had, with reference to findings raised by KPMG Huazhen Certified Public Accountants on the internal control system of the Group in 2006 and the COSO Internal Control Framework, established and improved the internal control and risk management system of the upper, middle and lower streams, and standardized operation activities such as trading, distribution, production and investment. At the same time, the Group conducted internal audit on the whole processes, provided full legal support and IT system support on a as needed basis, in order to satisfy the needs for sustainable and healthy development of the Group.

Following the changes in strategic development and business structure, the Group continuously improves the internal control system, especially focuses on the risk management aspect on the trading segment. During the year, the Group adjusted the organizational structure and established the Execution Division. Regarding the critical area of inventory ownership and management, the Group streamlined the work flow, and centralized the inventory ownership and management, providing reasonable protection to the safety of the Group's inventory.

The status of operation and internal control of the invested enterprises was stable, and their management is conducted in accordance with their legal structure. The Group enhanced management of investments and acquisitions, and continuously innovated the management and control system of investment projects. It further standardized the operation of meetings of shareholders, the Board and supervisors. It strengthened the daily management of investment projects and started assessment on certain investment projects, providing a reasonable guarantee to the healthy development of invested enterprises.

The distribution network further vertically developed. The difficulties in management widened and the Group was aware of the risks. Accordingly, it established efficient management structure, and implemented vertical management of finance, execution and business, realizing a professional management mechanism characterized by coordination, control and harmony. At the same time, it commenced the standardized establishment and operation project of the distribution network, reasonably protecting the operational safety of the distribution network.

The Group values the development of the effects of internal audit, which is highly authoritative and independent within the Group. Without any limits, the internal audit team reviews operation and internal control in all aspects, and performs special reviews on areas which are of particular concern to the management or the Audit Committee. The internal audit team commences its work based on the orientation of risks and focuses on high-risk areas. Through systematic and standardized monitoring procedures, internal audit is responsible for the effectiveness of the internal control, internal monitoring and risk management, proposes solutions to the management and follows up the implementation, in order to add value to the Group. Besides, it was the first time for the Group to integrate COSO internal control framework, reviewed the internal system of distribution networks in current year, and proposed improvement solutions for the management's consideration. In order to further strengthen the internal control, the Group set up and implement anti-corruption and reporting administration system to strictly prohibit the breach of law, regulation and other prejudice to the Company's interest.

Investor Relation 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 relation, 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 2007, investor relationship related tasks of the Company mainly consisted of the followings:

In April, the Company announced 2006 annual report of the Group, held press conference and analysts meeting and conducted roadshow which introduced the Company to European and Asian investors.

In August, the Company announced 2007 interim result of the Group, held press conference and analysts meeting and conducted roadshow in Hong Kong.

Besides roadshows and results announcement, the Group participated 11 investor meetings organized by investment banks and delivered 6 speeches in conferences. In order to manage 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, small-group conference and telephone conference in daily business. The Company had conducted as many as 400 visits/conversations with the investment and analysis institutions through a variety of ways in 2007.

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

Safety, Health and Environment

The Group aims at establishing a "harmonized China, safety agriculture industry" as its core philosophy. We follow the guidelines of "Safety first, priority in prevention, Superior according to regulations, Technological advance leads to safety". We have been dedicating huge efforts on corporate safety, occupational health and environmental protection (SHE) in line with the planning, implementation, development of strategies of the Group. We devote ourselves in providing environmentally-friendly agricultural products with the best quality and services.

1. Carry out the establishment of the SHE system, systematic procedures and standardized management

The Group has implemented safety management accountability system. The safety management targets are set and summarized every year and safety production accountability agreements at every level is signed. Through establishment and enhancement of "Work Flow of Safety, Healthy, Environment Protected Management Procedures" and relevant regulations, together with management tools, such as sample

Corporate Governance Report

checking, trainings, dry runs, to realize safety management targets. We implemented ISO14000 (Environment Management System), OHSMS28000 (Occupational Health and Safety Management System) and OHSAS18000 (Occupational Health Safety Assessment System) in Sinochem Zhisheng and Sinochem Fuling, the subsidiaries of the Group. Other production subsidiaries also set up effective measures in safety, environment-friendly accountability and occupational health, to ensure the employees are healthy and safe during their course of works. We also ensure the emissions are complied with the standards of environmental industry of the State.

2. **Strengthen the training in safety supervisory, set up the Safety Warning Mechanism and eliminate the potential safety problems**

Through the implementation and enhancement of safety mechanism, combined with certain measures like strengthening safety education and emergency dry runs, the overall safety prevention capability is improved. In 2007, the Group and its subsidiaries had organized 2303 hours and 18,618 person-times of three levels safety education training courses, 1,975 times of different safety check-ups in every level, in which 945 items of hidden safety problems were found and 939 items were remedied by the end of the year. The remedy percentage reached 99%. There was not any death, serious injury, fire or exploration happened throughout the system in 2007.

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

The production subsidiaries of the Group implemented system of accountability to environmental protection, in order to control the total amounts of contaminants being emitted. With regular analysis of emission targets, this helps the production subsidiaries to achieve the standard level of emissions in order to reduce the level of emissions. No environmental pollution incident was happened within the Group in 2007. Sinochem Fuling has invested RMB2.4 million in implementing environmental protection projects. The installment of major equipment helps Sinochem Fuling to achieve zero emission of wasted water.

4. **Developing environmentally protected economy, building up environmentally protected production enterprise**

The production subsidiaries have implemented several energy-saving and emission reduction projects, so as to reduce the production cost. We preliminarily achieve the combination of social benefit and economic benefit as a result of energy-saving and emission reduction. In 2007, the total production value of the production subsidiaries was increased by 31% when compared with 2006. The energy consumed to production value was remained at the same level in 2006. The electricity consumed per RMB10,000 of production was reduced to 914K watt hours from 1045K watt hours in 2006. The emission of wasted water was reduced to 252,600 tons from 414,000 tons in 2006. The coal consumption was reduced by 5,967 tons and water consumption was reduced by 63,000 tons. All these achieved the energy-saving and emission reduction targets in 2007.

Directors' Report

The Directors are pleased to present the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2007.

Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group include the production, import and export, distribution and retail of 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.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 86 of the annual report.

The Directors recommend the payment of a final dividend of 2.76 HK cents (2006: 2.31 HK cents) per share for the financial year ended 31 December 2007 to the shareholders, estimated to be HK$192,875,000 and the retention of the remaining profit in reserves.

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 156 of the annual report.

Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's total turnover for year 2007.

The aggregate purchase attributable to the Group's five largest suppliers represented around 32% of the Group's total purchases for the year, with the single largest supplier contributing to 14.14% of the Group's total purchases. The substantial shareholder of the Company, Potash Corporation of Saskatchewan Inc. ("PotashCorp"), holds one-third equity interest in the largest supplier of the Group, while another substantial shareholder of the Company, Sinochem Corporation, holds equity interest in another company amongst the five largest suppliers of the Group.

Save for the above, 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 any of the Group's five largest customers or suppliers.

Directors' Report

Property, Plant and Equipment

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

Share Capital

Details of the movements in share capital of the Group for the year are set out in note 33 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2007 amounted to HK$256,400,000 (2006: HK$137,372,000).

Donations

The Company made no charitable donation for the year ended 31 December 2007.

Directors

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

Executive Directors

Mr. Du Ke Ping *(Chief Executive Officer)*
Mr. Harry Yang

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

Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward	
Dr. Li Ka Cheung, Eric	(resigned on 28 June 2007)
Dr. Tang Tin Sek	
Mr. Tse Hau Yin	(appointed on 28 June 2007)

In accordance with clause 87(1) of the Company's bye-laws, Mr. Liu De Shu, Mr. Harry Yang, Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek will retire by rotation at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out on pages 29 to 33 of the annual report.

Directors' Service Contracts

The Board of Directors comprises two executive directors of the Company, five non-executive directors and three independent non-executive directors. Except for the two executive directors, none of the 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, and Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, have entered into service contracts with the Company for a term of three years, with effect from 28 July 2005 and 6 March 2006, respectively. Pursuant to the terms stipulated in their service contracts, the respective service contract with the Company may be (i) terminated prior to its expiry if either party serves two months' prior notice to the other in writing; or (ii) terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the respective service contract. Should the Company terminate the respective service contract with Mr. Du Ke Ping or Mr. Harry Yang prior to its expiry, Mr. Du or Mr. Yang will be entitled to receive a cash compensation equivalent to 11 months' of his annual director's salary, save for circumstances described in Item (ii) above.

Directors' Interests in the Shares and Share Options

As at 31 December 2007, the interests of the Directors and of their associates in the shares, share options and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, were as follows:

(a) Ordinary shares of HK$0.1 each of the Company

As at 31 December 2007, none of the Directors had any interests or short positions in the shares of the Company.

(b) Share options of the Company

On 28 June 2007, the Company has passed a resolution in a shareholders' meeting for the adoption of a new share option scheme (the "New Share Option Scheme") and the termination of the then existing share option scheme adopted on 26 August 2002 (the "Old Share Option Scheme"). Outstanding share options granted prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the Old Share Option Scheme.

(i) Other particulars of the share option schemes of the Company (including certain defined terms used below) are set out in note 34 to the consolidated financial statements.

Directors' Report

(ii) As at 31 December 2007, certain Directors of the Company had interests in the share options granted under the Company's share option schemes as follows:

Name of Director	Capacity	Number of share options held/underlying shares of the Company
Mr. Liu De Shu	Beneficial owners	2,453,000
Mr. Song Yu Qing	Beneficial owners	1,838,000
Mr. Du Ke Ping	Beneficial owners	5,633,000
Dr. Chen Guo Gang	Beneficial owners	1,838,000
Mr. Harry Yang	Beneficial owners	2,002,000
Mr. Wade Fetzer III	Beneficial owners	256,000
		14,020,000

(iii) The particulars of share options granted to the Directors and the employees of the Company and their movements during the year were as follows:

Old Share Option Scheme

				Number of Share Options			
Grantees	Date of Grant	Exercisable Period	Exercise Price	Outstanding at 1 January 2007	Exercised during the year	Forfeited during the year	Outstanding at 31 December 2007
		(Note 3)	*(HK$)*				
Mr. Liu De Shu *(Note 1)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	2,033,000	–	–	2,033,000
Mr. Song Yu Qing *(Note 1)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	1,582,000	–	–	1,582,000
Mr. Du Ke Ping *(Note 2)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	5,213,000	–	–	5,213,000
Dr. Chen Guo Gang *(Note 1)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	1,582,000	–	–	1,582,000
Mr. Harry Yang *(Note 2)*	23 January 2006	23 January 2008 – 2 January 2012	1.672	1,582,000	–	–	1,582,000
Employees	23 January 2006	23 January 2008 – 22 January 2012	1.672	16,453,000	–	–	16,453,000
				28,445,000	–	–	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 no more than two-thirds of the share options granted are exercisable and the remaining balance of share options are exercisable from 23 January 2009 to 22 January 2012.

New Share Option Scheme

				Number of Share Options			
Grantees	**Date of Grant**	**Exercisable Period**	**Exercise Price**	**Outstanding at 1 January 2007**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31 December 2007**
		(Note 6)	*(HK$)*				
Mr. Liu De Shu *(Note 4)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	–	420,000	–	420,000
Mr. Song Yu Qing *(Note 4)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	–	256,000	–	256,000
Mr. Du Ke Ping *(Note 5)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	–	420,000	–	420,000
Dr. Chen Guo Gang *(Note 4)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	–	256,000	–	256,000
Mr. Harry Yang *(Note 5)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	–	420,000	–	420,000
Mr. Wade Fetzer III *(Note 4)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	–	256,000	–	256,000
Employees	28 August 2007	28 August 2009 – 27 August 2013	4.990	–	6,672,000	–	6,672,000
				–	8,700,000	–	8,700,000

Notes:

(4) Non-executive Director of the Company

(5) Executive Director of the Company

(6) The exercisable period of the share options granted can be analysed as:

(i) 33.3% of the share options granted are exercisable on or after 28 August 2009;

(ii) 16.7% of the options granted are exercisable on or after 28 August 2010;

Directors' Report

(iii) *If the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ending 31 December 2009 is more than 67.40 HK cents, a further of 25% of the share options granted are exercisable on or after 28 August 2010, and the remaining 25% of the share options granted are exercisable on or after 28 August 2011; but*

If the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ending 31 December 2009 is 67.40 HK cents of less, 50% or the share options granted will be forfeited on 28 August 2010.

All remaining unexercised share options will be forfeited on 28 August 2013.

(c) Derivative interests in the shares of the Company

Mr. Du Ke Ping and Mr. Harry Yang, being Executive Directors of the Company, have derivative interests in respect of 362,526 shares and 235,711 shares, respectively, in the Company within the meaning of Part XV of the SFO. These derivative interests represent Mr. Du's and Mr. Yang's respective entitlement to receive an equivalent value in cash of 362,526 shares and 235,711 shares in the Company, subject to, among other things, satisfaction of certain performance targets.

Save as disclosed above, none of the Directors or chief executive, nor their associates, had any interests or short positions in any shares, share options or underlying shares of the Company or any of its associated corporations within the meaning of the SFO as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Shock Exchange pursuant to the Model Code as at 31 December 2007.

Directors' Right to Subscribe Shares or Debentures

Other than the interests in share options of the Company disclosed above, 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, or their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in or debenture of the Company or any other body corporate, and none of them had any right to subscribe for the securities of the Company or its associated corporations, or had exercised any such right during the year ended 31 December 2007.

Directors' Interests in Contracts of Significance

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

Management Contracts

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

Directors' Interests in Competing Business

During the year ended 31 December 2007, Mr. Du Ke Ping, an Executive Director and the Chief Executive Officer of the Company, was a director of Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong") and Mr. Harry Yang, an Executive Director and Deputy General Manager of the Company, was a director of US Agri-Chemicals Corporation. Sinochem Shandong and US Agri-Chemicals Corporation are held as to 51% and 100% by Sinochem Corporation respectively.

Sinochem Shandong and US Agri-Chemicals Corporation are members of the group comprising Sinochem Corporation and its subsidiaries (other than the Group) which continue to be engaged in the production of fertilizers. During the year, Sinochem Shandong continued to be engaged in the production of fertilizer while US Agri-Chemicals Corporation has ceased its operation since November 2005. During the year, four out of the eleven directors of Sinochem Shandong were also directors or members of the senior management of the Group and the remaining directors of Sinochem Shandong did not hold any positions nor assumed any role in the Group. Save for Mr. Yang, none of the directors of US Agri-Chemicals Corporation held any positions or assumed any role in the Group during the year.

In order to limit the competition between the Group and Sinochem Shandong, Sinochem Corporation granted the option to the Company which allows the Company to acquire Sinochem Corporation's interests in Sinochem Shandong at a fair market value. In addition, the Company, through its indirectly wholly-owned subsidiary, also entered into fertilizer purchase and supply agreements with Sinochem Shandong. On 28 November 2007, the Company entered into a conditional acquisition agreement with Sinochem Corporation to acquire Sinochem Corporation's interest in Sinochem Shandong. Following the completion of the acquisition by the Company of Sinochem Corporation's 51% equity interests in Sinochem Shandong, Sinochem Shandong will become a subsidiary of the Company and as such, the business of Sinochem Shandong will no longer be competing with the business of the Group.

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

Directors' Report

Substantial Shareholders

As at 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholders		Number of issued ordinary shares/ share options held – long position	Percentage of the issued share capital of the Company
Sinochem Corporation			
Issued ordinary shares		4,270,453,301	68.76%
Share options		714,285,714	11.50%
	note (1)	4,984,739,015	80.26%
PotashCorp			
Issued ordinary shares		4,270,453,301	68.76%
Share options		714,285,714	11.50%
	note (2)	4,984,739,015	80.26%

Notes:

(1) These shares represent the corporate interest of Sinochem Corporation held through its wholly-owned subsidiary, Sinochem Hong Kong (Group) Company Limited ("Sinochem HK"). The interests consist of (a) 3,108,863,335 shares directly held by Sinochem HK and interest in 519,995,539 underlying shares agreed to be subscribed by Sinochem HK under the Subscription Agreement dated 2 November 2007 (the "Subscription Agreement"), and (b) 1,161,589,966 shares held by PotashCorp through its wholly owned subsidiary PCS (Barbados) Investment Company Limited ("PCS Barbados") and interest in 194,290,175 underlying shares agreed to be subscribed by PCS Barbados under the Subscription Agreement in which Sinochem HK is deemed to have an interest under Sections 317 and 318 of the SFO.

(2) These shares represent the corporate interest of PotashCorp held through its wholly-owned subsidiary, PCS Barbados. The interests consist of (a) 1,161,589,966 shares directly held by PCS Barbados and interest in 194,290,175 underlying shares agreed to be subscribed by PCS Barbados under the Subscription Agreement, and (b) 3,108,863,335 shares held by Sinochem HK and interest in 519,995,539 underlying shares agreed to be subscribed by Sinochem HK under the Subscription Agreement in which PotashCorp is deemed to have an interest under Sections 317 and 318 of the SFO.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions held by any other person in the shares or share options or underlying shares of the Company as at 31 December 2007.

Connected Transactions

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

For the year ended 31 December 2007, the Group had the following transactions which constitute connected transactions/continuing connected transactions under the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules") and are hereby disclosed pursuant to Chapter 14A of the Listing Rules.

1. The New Connected Transactions/Continuing Connected Transactions in 2007

From 1 January 2007 to 31 December 2007, the Company newly conducted the following connected transactions/continuing connected transactions, which are subject to reporting, announcement and/or independent shareholders' approval under the Chapter 14A of the Listing Rules:

(1) Continuing Connected Transaction – MOU entered into between Sinochem Macao and PCS Sales

On 10 January 2007, Sinochem Macao, an indirectly wholly-owned subsidiary of the Company, entered into an MOU with PCS Sales, a wholly-owned subsidiary of the Company's substantial shareholder, Potash, under which the parties agreed to enter into transactions for a maximum term of three years from 1 January 2007 to 31 December 2009 for the supply of sulfate of potash magnesia by PCS Sales to Sinochem Macao.

The proposed annual caps for the transactions under the MOU are US$4,840,000 (approximately HK$37,752,000), US$8,800,000 (approximately HK$68,640,000) and US$11,000,000 (approximately HK$85,800,000) for the years ending 31 December 2007, 31 December 2008 and 31 December 2009, respectively.

As each of the relevant percentage ratios set out in the Listing Rules in respect of the maximum annual value of the transactions contemplated under the MOU is, on an annual basis, less than 2.5%, the MOU is classified as a continuing connected transaction of the Company under Rule 14A.34(1) of the Listing Rules and is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules, but is exempt from the independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 11 January 2007.

(2) Continuing Connected Transactions – Tianjin Port Service Agreement entered into between Tianjin Beifang and Tianjin Sinochem Storage

On 10 January 2007, Tianjin Beifang (in which Sinochem Fertilizer, an indirectly wholly-owned subsidiary of the Company, holds 60% of its equity interest) entered into the Tianjin Port Service Agreement with Tianjin Sinochem Storage (which is held as to 60% by Sinochem International and as to 40% by Sinochem Tianjin Corporation; the ultimate shareholder of the Company, Sinochem Corporation held as to 55.43% in Sinochem International and as to 100% in Sinochem Tianjin Corporation), under which Tianjin Beifang will provide services on customs clearance, logistics, packaging, storage and other related services to Tianjin Sinochem Storage in relation to its goods at the port of Tianjin for a term of three years from 1 January 2007 to 31 December 2009.

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The proposed annual caps for the transactions under the Tianjin Port Service Agreement are RMB16,200,000 (approximately HK$16,039,604), RMB18,900,000 (approximately HK$18,712,871) and RMB18,900,000 (approximately HK$18,712,871) for the years ending 31 December 2007, 31 December 2008 and 31 December 2009, respectively.

As each of the relevant percentage ratios set out in the Listing Rules in respect of the maximum annual value of the transactions contemplated under the Tianjin Port Service Agreement is, on an annual basis, less than 2.5%, the Tianjin Port Service Agreement is classified as a continuing connected transaction of the Company under Rule 14A.34(1) of the Listing Rules and is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules, but is exempt from the independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 11 January 2007.

(3) Continuing Connected Transactions – Sales Agreement entered into between Sinochem Fertilizer and Tianji Group Potash

On 12 April 2007, Sinochem Fertilizer, an indirectly wholly-owned subsidiary of the Company, Sinochem Fertilizer, entered into the Sales Agreement with Tianji Group Potash, a wholly-owned subsidiary of Tianji Coal and Chemical Engineering (the substantial shareholder of Beijing Tianji Sinochem Trading, a jointly controlled entity of the Company). Pursuant to the Sales Agreement, Sinochem Fertilizer will supply, and the Tianji Group Potash will purchase, potash materials. The Sales Agreement will expire on 31 December 2009.

The proposed annual caps for the transactions under the Sales Agreement are RMB19,950,000 (approximately HK$20,151,515), RMB23,650,000 (approximately HK$23,888,889) and RMB28,600,000 (approximately HK$28,888,889) for the years ending 31 December 2007, 31 December 2008 and 31 December 2009, respectively.

As each of the relevant percentage ratios set out in the Listing Rules in respect of the maximum annual value of the transactions contemplated under the Sales Agreement is, on an annual basis, less than 2.5%, the Sales Agreement is classified as a continuing connected transaction of the Company under Rule 14A.34(1) of the Listing Rules and is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules, but is exempt from the independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement published issued by the Company on 13 April 2007.

(4) Continuing Connected Transaction – Property Leasing Agreement entered into between Sinochem Fertilizer and Chemsunny

On 8 June 2007, Sinochem Fertilizer entered into a property leasing agreement with Chemsunny (an indirectly wholly-owned subsidiary of Sinochem Corporation, the ultimate controlling shareholder of the Company), pursuant to which Sinochem Fertilizer will lease from Chemsunny Unit F10, Central Tower of Chemsunny Plaza, with a total construction area of approximately 4,804.80 square meters, to be used as office premises of Sinochem Fertilizer for the period from 1 June 2007 to 31 December 2009. The Lease Agreement is effective from 1 June 2007 and expires on 31 December 2009. There is a three-month rent-free period commencing on 1 June 2007 and expiring on 31 August 2007.

The proposed annual caps for the transactions under the Lease Agreement are RMB6,606,092 (approximately HK$6,740,910), RMB18,118,980 (approximately HK$18,488,755) and RMB18,118,980 (approximately HK$18,488,755) for the years ending 31 December 2007, 31 December 2008 and 31 December 2009 respectively. Such annual caps are inclusive of the rental and management fees. Such annual caps are calculated based on the amounts of rental, property management fees, utilities, car park and other miscellaneous fees according to the terms of the Lease Agreement for the relevant years, taking into account the rent-free period for the first year and the possible annual increases in management fees and utility charges in accordance with the terms of the Lease Agreement commencing from the second year of the term.

As each of the relevant percentage ratios set out in the Listing Rules in respect of the aggregate maximum annual value of the transactions contemplated under the Lease Agreement is, on an annual basis, less than 2.5%, the Lease Agreement is classified as a continuing connected transaction of the Company under Rule 14A.34(1) of the Listing Rules and is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules, but is exempt from the independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 8 June 2007.

(5) Continuing Connected Transaction – Agrichemical Sourcing Transaction between Sinochem Fertilizer and SRICI

Shenyang Research Institute of Chemical Industry ("SRICI"), an indirectly wholly-owned subsidiary of Sinochem Corporation, entered into an Agrichemical Sourcing Agreement with Sinochem Fertilizer on 16 November 2007, which will expire on 31 December 2010. Pursuant to the agreement, Sinochem Fertilizer is granted the exclusive right to sell SRICI's agrichemical products in Hebei, Shandong, Shanxi, Shaanxi, Beijing, Tianjin, Gansu, Ningxia, Qinghai and Xinjiang.

The maximum turnovers for the three years ending 31 December 2010 are estimated to be RMB20,000,000, RMB30,000,000 and RMB40,000,000, respectively.

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As each of the relevant percentage ratios set out in the Listing Rules in respect of the maximum annual value for the Agrichemical Sourcing Transaction is, on an annual basis, less than 2.5%, the Agrichemical Sourcing Transaction is classified as a continuing connected transaction of the Company under 14A.34 of the Listing Rules and is subject to the reporting, announcement and annual review requirements set out in Chapter 14A of the Listing Rules, but is exempt from the independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 16 November 2007.

(6) Continuing Connected Transactions – Fertilizer Purchase Framework Agreement entered into between Sinochem Fertilizer and Qinghai Salt Lake

Sinochem Fertilizer has in its ordinary and usual course of business purchased fertilizer products from Qinghai Salt Lake. Upon completion of the Shandong Acquisition, Qinghai Salt Lake will become a connected person of the Company by reason of Qinghai Salt Lake being an associate of Qinghai Salt Lake Industry Group, a substantial shareholder of Sinochem Shandong (Sinochem Shandong will become a subsidiary of the Company upon completion of the Shandong Acquisition).

In its ordinary and usual course of business, Sinochem Fertilizer entered into the Fertilizer Purchase Framework Agreement with Qinghai Salt Lake on 26 November 2007. The Fertilizer Purchase Framework Agreement will take effect from the beginning of the 2008 financial year and expire on 31 December 2010. Pursuant to the Fertilizer Purchase Framework Agreement, Qinghai Salt Lake will supply, and Sinochem Fertilizer will purchase, chemical and fertilizer products and materials.

The Company estimates that the maximum annual amounts of purchases of potash fertilizer by Sinochem Fertilizer under the Fertilizer Purchase Framework Agreement will be approximately RMB2,400,000,000 (equivalent to approximately HK$2,515,195,975), RMB2,880,000,000 (equivalent to approximately HK$3,018,235,170) and RMB4,200,000,000 (equivalent to approximately HK$4,401,592,957) for each of the three years ending 31 December 2010.

Given that the relevant applicable percentage ratios set out in the Listing Rules in respect of the value for the Fertilizer Purchase Framework Agreement is on an annual basis, expected to be 2.5% or above and the annual consideration is more than HK$10,000,000, the Fertilizer Purchase Framework Agreement falls within Rule 14A.35 of the Listing Rules, and is subject to the disclosure and approval requirements under Rules 14A.45, 14A.46 and 14A.48 of the Listing Rules and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

The aforesaid continuing connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 28 November 2007 and the circular dated 12 December 2007.

(7) Connected Transaction – Acquisition of Qinghai Salt Lake

As disclosed in the Company's circular dated 13 June 2005, Sinochem Corporation has given the Non-Competition Undertaking in favour of the Company, pursuant to which the Company was granted, among other things, the option to acquire Sinochem Corporation's interests in Qinghai Salt Lake at a fair market value.

On 16 October 2007, the Company exercised the option and signed an Acquisition Agreement with Sinochem Corporation (the ultimate controlling shareholder of the Company) through Sinochem Fertilizer, an indirectly wholly-owned subsidiary of the Company, for the acquisition of 141,907,561 shares in Qinghai Salt Lake. Pursuant to the Acquisition Agreement, both parties confirmed that the acquisition consideration be RMB47.49 per sale share. The total consideration is RMB6,739,190,000. Upon completion of the acquisition, Sinochem Fertilizer will hold 141,907,561 shares in Qinghai Salt Lake, representing approximately 18.49% of its total issued share capital.

Since Sinochem Corporation is the ultimate controlling shareholder of the Company, it is considered as a connected person. As such, the Acquisition Agreement constitutes a connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The aforesaid connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 17 October 2007 and the circular dated 10 December 2007.

(8) Issue of New Shares to Major Shareholders Sinochem HK and PCS (Barbados)

On 2 November 2007, the Company entered into a subscription agreement with Sinochem HK and PCS (Barbados) Investment Company Limited pursuant to which Sinochem HK and PCS agreed to subscribe and the Company agreed to issue and allot 714,285,714 Subscription Shares at the Subscription Price of HK$7.00 per Subscription Share. The Sinochem HK Subscription Shares and the PCS Subscription Shares represent approximately 8.37% and 3.13% respectively of the issued share capital of the Company and approximately 7.51% and 2.81% respectively of the issued share capital of the Company as enlarged by the Subscription. The Subscription Shares represent approximately 11.50% of the existing issued share capital of the Company and approximately 10.31% of the issued share capital of the Company as enlarged by the Subscription. The Subscription Price of HK$7.00 per Subscription Share was arrived at after arm's length negotiation between the Company, Sinochem HK and PCS, with reference to the market conditions and taking into account the recent trading price of the Shares at that time. The entire net proceeds from the Subscription amounts to approximately HK$5,000,000,000 and will be used to finance the Company's acquisition of the 141,907,561 shares in Qinghai Salt Lake held by Sinochem Corporation.

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Since Sinochem Corporation is the controlling shareholder of the Company, it is considered as a connected person. As such, the Acquisition Agreement constitutes a connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The aforesaid connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 2 November 2007 and the circular dated 10 December 2007.

(9) Connected Transaction – Tianji Acquisition Agreement

As disclosed in the Company's circular dated 13 June 2005, Sinochem Corporation has given the Non-Competition Undertaking in favour of the Company, pursuant to which the Company was granted, among other things, the option to acquire Sinochem Corporation's interests in Tianji JV at a fair market value.

On 28 November 2007, the Company exercised the option and signed the Tianji Acquisition Agreement with Sinochem Corporation (the ultimate controlling shareholder of the Company) through Sinochem Fertilizer, an indirectly wholly-owned subsidiary of the Company, for the acquisition of 40% equity interest in Tianji-Sinochem. The total consideration for this acquisition is approximately RMB208,830,000 (equivalent to approximately HK$218,850,000), which was determined based on arm's length negotiations and with reference to the asset appraisal value of Tianji-Sinochem.

In accordance with Chapter 14 of the Listing Rules, the Tianji Acquisition constitutes discloseable transaction of the Company. In addition, since Sinochem Corporation is the controlling shareholder of the Company, it is considered as a connected person. As such, the Acquisition Agreement constitutes a connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The aforesaid connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 28 November 2007 and the circular dated 12 December 2007.

(10) Connected Transaction – Shandong Acquisition Agreement

As disclosed in the Company's circular dated 13 June 2005, Sinochem Corporation has given the Non-Competition Undertaking in favour of the Company, pursuant to which the Company was granted, among other things, the option to acquire Sinochem Corporation's interests in Sinochem Shandong at a fair market value.

On 28 November 2007, the Company exercised the option and signed the Shandong Acquisition Agreement with Sinochem Corporation through Sinochem Fertilizer, an indirectly wholly-owned subsidiary of the Company, for the acquisition of 51% interest in Sinochem Shandong. The total consideration for this acquisition is approximately RMB56,380,000 (equivalent to approximately HK$59,090,000), which was determined based on arm's length negotiations and with reference to the asset appraisal value of Sinochem Shandong.

Since Sinochem Corporation is the controlling shareholder of the Company, it is considered as a connected person. As such, the Acquisition Agreement constitutes a connected transaction of the Company, and is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The aforesaid connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 28 November 2007 and the circular dated 12 December 2007.

2. Renewals of Continuing Connected Transactions in 2007

As disclosed in the Company's circular dated 13 June 2005 (the "2005 Circular"), the Group conducts certain continuing connected transactions with its connected persons in its ordinary and usual course of business. The relevant continuing connected transactions will continue following the conclusion of the year ended 31 December 2007. At the special general meeting of the shareholders held on 28 December 2007, the renewal of these continuing connected transactions was approved, with their details set out below:

(11) Renewal of Import Service Framework Agreement

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducts certain continuing connected transactions with its connected person, Sinochem Corporation (the controlling shareholder of the Company), in respect of the transactions carried out under the Import Service Framework Agreement. This continuing connected transaction will continue following the conclusion of the year ended 31 December 2007.

Sinochem Fertilizer, Sinochem Macao and Sinochem Corporation entered into the Import Service Framework Agreement on 16 November 2007. As under PRC law, the Group is not allowed to import fertilizers and the right to import fertilizers is only granted to Sinochem Corporation and several other importers, Sinochem Corporation has agreed to provide import service to the Group under this agreement. Pursuant to this agreement, fertilizer products sourced from overseas by Sinochem Macao for Sinochem Fertilizer will first be sold to Sinochem Corporation. Sinochem Corporation, as an approved importer of fertilizer products in the PRC, will import the products sourced by Sinochem Macao and sell them all to Sinochem Fertilizer. Sinochem Corporation also imports a small amount of fertilizer products directly from specific companies from time to time. Sinochem Corporation has undertaken that, except for any fertilizer products imported by it on behalf of its other customers, it will sell all the fertilizer products it imports to Sinochem Fertilizer exclusively.

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On the other hand, Sinochem Fertilizer is free to purchase fertilizer products from any authorized importers. Sinochem Fertilizer, Sinochem Corporation and Sinochem Macao will, in accordance with the provisions and principles stipulated in the Import Service Framework Agreement, enter into further specific agreements for the products imported through Sinochem Corporation. Under the Import Service Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties are as follows:

(i) the price to be paid by Sinochem Corporation to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Corporation will be set in accordance with the prevailing international market price;

(ii) the price to be paid by Sinochem Fertilizer to Sinochem Corporation for fertilizer products sourced from overseas by Sinochem Macao will be set on a cost basis, that is, the price of the imported fertilizer products acquired by Sinochem Corporation from Sinochem Macao plus product inspection costs, customs and excise handling charges, import duty, value-added tax and a reasonable administration cost incurred by Sinochem Corporation in relation to the importation of the fertilizers; and

(iii) the price to be paid by Sinochem Fertilizer to Sinochem Corporation for fertilizer products sourced by Sinochem Corporation directly from overseas will be set in accordance with the domestic wholesale market price.

The maximum aggregate annual value in respect of the continuing connected transactions between Sinochem Macao and Sinochem Corporation under the Import Service Framework Agreement for each of the three years ending 31 December 2010 is estimated to be US$2,454,840,000 (equivalent to RMB18,195,274,080), US$2,705,820,000 (equivalent to RMB20,055,537,840) and US$3,029,700,000 (equivalent to RMB22,456,136,400), respectively. Such estimates are calculated based on the projected quantities of purchase by Sinochem Corporation for Sinochem Fertilizer through the arrangement with Sinochem Macao and the projected average price per ton of products for each of the relevant years (which is set in accordance with the prevailing international market price). Payments are normally made within 90 days of delivery of the fertilizers.

The maximum aggregate annual value in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Corporation under the Import Service Framework Agreement for each of the three years ending 31 December 2010 is estimated to be RMB18,663,080,000, RMB20,570,980,000 and RMB23,032,950,000, respectively.

Such estimates are calculated based on:

(i) the projected quantities of sales of fertilizer products sourced from overseas by Sinochem Macao and the projected average price per ton of fertilizer products for each of the relevant years (which is set on a cost basis); and

(ii) the projected quantities of sales of fertilizer products sourced by Sinochem Corporation directly from overseas suppliers to Sinochem Fertilizer and the projected average price per ton of fertilizer products for each of the relevant years (which is set in accordance with the domestic wholesale market price). Payments are normally made within 90 days of delivery of the fertilizers.

The aforesaid continuing connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 16 November 2007 and the circular dated 10 December 2007.

(12) Renewal of Fertilizer Purchase Agreement with Sinochem Shandong

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducts certain continuing connected transactions with Sinochem Shandong in respect of the transactions carried out under the Fertilizer Purchase Agreement. This continuing connected transaction will continue following the conclusion of the year ended 31 December 2007.

Sinochem Shandong entered into the Fertilizer Purchase Agreement with Sinochem Fertilizer on 16 November 2007. Sinochem Shandong is held as to 51% by Sinochem Corporation. The agreement will expire on 31 December 2010. Sinochem Fertilizer may request that Sinochem Shandong enters into a new purchase agreement with it on the same terms upon the expiry of the current agreement.

Pursuant to this agreement, Sinochem Shandong has granted to Sinochem Fertilizer an exclusive right to sell its fertilizer products in the PRC, and shall sell all its fertilizer products to Sinochem Fertilizer based on production costs and the fair market price in the PRC at the time the purchase plan is submitted. Sinochem Shandong shall not grant any right to any third party to, sell any of its fertilizer products in the PRC during the term of the agreement. The agreement does not contain any provision obliging Sinochem Fertilizer to purchase fertilizer products from Sinochem Shandong. Sinochem Fertilizer shall provide Sinochem Shandong with a purchase plan two months in advance of a purchase, and Sinochem Shandong shall supply the fertilizer products required accordingly upon full payment of relevant price. Sinochem Fertilizer has entered into this agreement with Sinochem Shandong in order to avoid any competition between Sinochem Shandong and the Group.

The Group estimates that the maximum annual amount of purchases of chemical fertilizer products from Sinochem Shandong under the Fertilizer Purchase Agreement will be approximately RMB1,350,000,000, RMB1,540,000,000 and RMB1,740,000,000, respectively, for each of the three years ending 31 December 2010. Such estimates are calculated based on projected production capacity of Sinochem Shandong and projected average price per ton of products for each of the relevant years, having regard to the anticipated growth of fertilizer consumption in the PRC in the future and the continuing expansion of the Group's sale network.

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The renewal of the aforesaid continuing connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 16 November 2007 and the circular dated 10 December 2007.

The Company estimated that it will complete the acquisition of Sinochem Shandong in 2008. Upon the completion of the acquisition, Sinochem Shandong will become the subsidiary of the Company; accordingly, it will no longer be a connected person of the Company. Therefore, any transactions between them will not constitute continuing connected transactions, and will not be subject to any transaction cap limitation.

(13) Renewal of Fertilizer Supply Agreement with Sinochem Shandong

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducts certain continuing connected transactions with Sinochem Shandong in respect of transactions carried out under the Fertilizer Supply Agreement. This continuing connected transaction will continue following the expiration of the year ending 31 December 2007.

As disclosed in the Company's announcement dated 28 April 2006, Sinochem Fertilizer and Sinochem Shandong entered into New Shandong Supply Agreement on 21 April 2006, pursuant to which the supply of products to Sinochem Shandong will extend to other fertilizer related products and raw materials. The transaction caps for 2006 and 2007 will be increased to RMB426,600,000 and RMB508,600,000 respectively.

Sinochem Fertilizer entered into the Fertilizer Supply Agreement with Sinochem Shandong (owned as to 51% by Sinochem Corporation) on 16 November 2007. The agreement will expire on 31 December 2010.

Pursuant to this agreement, Sinochem Fertilizer shall supply potash fertilizers to Sinochem Shandong. Sinochem Shandong shall place a purchase order with Sinochem Fertilizer two months in advance of a purchase, and Sinochem Fertilizer shall reply to Sinochem Shandong within 15 business days of each purchase order. The price of the fertilizers shall be their fair market price in the PRC at the time the purchase order is placed.

Sinochem Fertilizer shall deliver the fertilizers ordered by Sinochem Shandong upon full payment of the relevant price. Pursuant to the Fertilizer Supply Agreement, Sinochem Fertilizer may request that Sinochem Shandong enters into a new supply agreement with it on the same terms upon the expiry of the current agreement. Sinochem Fertilizer has entered into this agreement with Sinochem Shandong in order to avoid any competition between Sinochem Shandong and the Group.

Sinochem Fertilizer estimates that the maximum annual amount of sales of potash fertilizers to Sinochem Shandong under the Fertilizer Supply Agreement will be approximately RMB1,324,026,000, RMB1,521,432,000 and RMB1,598,472,000 for each of the three years ending 31 December 2010. Such estimates are calculated based on projected quantities of sales and projected average price per ton of potash fertilizers for each of the relevant years, having regard to the anticipated growth of potash fertilizer consumption in the PRC in the future.

The aforesaid continuing connected transaction was approved by the shareholders in the special general meeting held on 28 December 2007.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 16 November 2007 and the circular dated 10 December 2007.

The Company estimated that it will complete the acquisition of Sinochem Shandong in 2008. Upon the completion of the acquisition, Sinochem Shandong will become the subsidiary of the Company; accordingly, it will no longer be a connected person of the Company. Therefore, any transactions between them will not constitute continuing connected transactions, and will not be subject to any transaction cap limitation.

(14) Renewal of UK Service Agreement

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducts certain continuing connected transactions with its connected person, Sinochem UK, an indirectly wholly-owned subsidiary of Sinochem Corporation, in respect of the transactions carried out under the UK Service Agreement. This continuing connected transaction will continue following the conclusion of the year ended 31 December 2007.

Sinochem UK entered into the UK Service Agreement with Sinochem Macao on 16 November 2007. The agreement will expire on 31 December 2010.

Pursuant to the agreement, Sinochem UK shall provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (which mainly includes salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs). The fee payable by Sinochem Macao shall be US$6 (equivalent to RMB44) per ton of products Sinochem Macao purchased from its suppliers and in respect of which Sinochem UK has provided service. Sinochem UK and Sinochem Macao may by agreement in writing adjust the fee payable in accordance with changes in operation expenses of Sinochem UK.

Directors' Report

The total amount of fee payable by Sinochem Macao to Sinochem UK under the agreement shall not exceed US$2,000,000 (equivalent to RMB14,824,000) for each of the three years ending 31 December 2010. Such services are required by the Group as it does not have any staff working in Europe. Sinochem UK shall invoice Sinochem Macao for all services it provides from time to time and Sinochem Macao shall settle the invoice within 10 days of the date of such invoice. The Group estimates that the maximum annual amount of fees payable to Sinochem UK for each of the three years ending 31 December 2010 will be approximately US$2,000,000 (equivalent to RMB14,824,000). Such estimates are calculated based on projected quantities of purchases of Sinochem Macao from local suppliers in Europe and projected average price per ton of products for each of the relevant years, having regard to the growth in the market demand of fertilizers in Europe.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 16 November 2007.

(15) Renewal of Logistics Services Agreement

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducts certain continuing connected transactions with Tianjin Port Group, the associate of the controlling shareholder of the Company's jointly controlled entity Tianjin Beifang, in respect of the transactions carried out under the Logistics Services Agreement. This continuing connected transaction will continue following the conclusion of the year ended 31 December 2007.

Tianjin Port Group and Tianjin Beifang entered into the Logistics Services Agreement on 16 November 2007. This agreement will expire on 31 December 2010. Pursuant to this agreement, Tianjin Port Group shall provide logistics services to Tianjin Beifang for standard fees at which Tianjin Port Group charges all its customers. Such fees are to be made by Tianjin Beifang after the logistics services are provided.

Tianjin Beifang is owned as to 60% by the Company and 40% by Tianjin Port, a wholly-owned subsidiary of Tianjin Port Group. Accordingly, Tianjin Port Group is a connected person of Tianjin Beifang by virtue of being an associate of Tianjin Port, a substantial shareholder of Tianjin Beifang.

The maximum annual amount of fees payable by Tianjin Beifang to Tianjin Port Group for the provision of such services for each of the three years ending 31 December 2010 is estimated to be RMB123,500,000, RMB128,600,000 and RMB144,700,000, respectively. Such estimates are calculated based on projected quantities of products that will require port services and fees payable for each of the relevant years, having regard to historical quantities, fees and the continuing expansion of the Group's sales network in the PRC and overseas.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 16 November 2007.

(16) Renewal of Raw Materials Supply Agreement

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducts certain continuing connected transactions with Yongan Zhisheng, a substantial shareholder of the Company's subsidiary Sinochem Zhisheng, in respect of the transactions carried out under the Raw Materials Supply Agreement. This continuing connected transaction will continue following the conclusion of the year ended 31 December 2007.

Yongan Zhisheng entered into the Raw Materials Supply Agreement with Sinochem Zhisheng on 16 November 2007 under which Yongan Zhisheng agreed to supply raw materials (ammonia, liquid nitrogen solution, urea, recycled water, well water and compressed air, collectively "Specified Raw Materials") to Sinochem Zhisheng. This agreement will expire on 31 December 2010. Sinochem Zhisheng is a joint venture company held as to 53.19% by Sinochem Fertilizer and 46.81% by Yongan Zhisheng. As such, Yongan Zhisheng, as a substantial shareholder of Sinochem Zhisheng, is a connected person to the Company.

Pursuant to the agreement, Sinochem Zhisheng shall notify Yongan Zhisheng on a monthly basis the types, quantity and standard of Specified Raw Materials it requires for the following month, and Yongan Zhisheng shall supply all the Specified Raw Materials required by Sinochem Zhisheng unless affected by the maintenance or repair of its equipment. The price of the Specified Raw Materials shall be the actual cost of supply of such materials to Yongan Zhisheng plus tax charges. Sinochem Zhisheng shall pay Yongan Zhisheng on a monthly basis for the Specified Raw Materials purchased in the previous month.

The maximum annual amount of purchase price payable by Sinochem Zhisheng under the above agreement for each of the three years ending 31 December 2010 is estimated to be RMB91,433,500, RMB116,088,900 and RMB132,918,100, respectively. Such estimates are calculated based on projected quantities of purchases for each of the relevant years, having regard to historical quantities and the anticipated growth of fertilizer consumption in the PRC in the future.

For detailed information on the aforesaid transaction, please refer to the announcement published by the Company on 16 November 2007.

Directors' Report

3. Other Continuing Connected Transactions

Other than the above continuing connected transactions renewed in 2007, the continuing connected transactions of the Company in 2007 also include the following:

(17) Provision of Logistics Services between (i) Sinochem Fertilizer and Tianjin Beihai; and (ii) Tianjin Beifang and Tianjin Beihai

On 21 February 2006, Sinochem Fertilizer 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 unloading, packaging, storage, port and other related services to Sinochem Fertilizer in relation to its fertilizers at the port of Tianjin in return for the payment of certain fees by Sinochem Fertilizer, while Tianjin Beihai will provide packaging services to Tianjin Beifang in relation to its products at the port of Tianjin in return for the payment of certain fees by Tianjin Beifang. 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.

Sinochem Fertilizer is an indirectly wholly owned subsidiary of the Company. Tianjin Beihai is held as to approximately 48.18% by Tianjin Port while Tianjin Port, through its wholly-owend subsidiary, holds 40% of the equity interest in Tianjin Beifang, a jointly controlled entity of the Company held as to 60% by Sinochem Fertilizer. Tianjin Beihai is therefore an associate of Tianjin Port (a substantial shareholder of a subsidiary of the Company) and a connected person of the Company within the meaning of the Listing Rules. In addition, Rillfung Company Limited and 中化國際倉儲運輸有限公司 (Sinochem International Storage and Transportation Limited), two subsidiaries of Sinochem Corporation, collectively hold an approximately 39.53% equity interest in Tianjin Beihai. Accordingly, Tianjin Beihai also 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.

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

For detailed information on the aforesaid transactions, please refer to the announcement published by the Company on 24 February 2006.

(18) Sinochem Macao Import Canadian Potash from Canpotex International Pte. Limited

On 10 April 2006, Sinochem Macao, the wholly-owned subsidiary of the Company, entered into a memorandum with Canpotex, the associate of Potash Corporation of Saskatchewan Inc which is the substantial shareholder of the Company, pursuant to which both parties agreed to continue the transactions for a term of three years from 1 January 2007 to 31 December 2009. According to the memorandum, Canpotex agreed to supply through its indirectly wholly-owned subsidiary, Canpotex International Pte. Limited, and Sinochem Macao agreed to purchase an aggregate of 2,600,000, 2,800,000 and 3,000,000 tons of Canadian potash for the three years ending 31 December 2009, respectively. The aggregate quantity to be supplied in each year is subject to a 10% adjustment. According to the memorandum, Sinochem Macao will purchase Canadian potash from Canpotex on an exclusive basis and Canpotex will not sell such potash to any other Chinese buyers unless otherwise agreed to between both parties. The memorandum requires Canpotex to supply additional quantities of potash to Sinochem Macao in the event of an increase of overall demand for potash imports into the PRC.

During three years stated in the memorandum, prices for the potash to be supplied will be determined after arm's length negotiations between both parties with reference to prevailing market prices, and which is consistent with the longstanding procedures and practice between Canpotex and the members of the Group. The Directors consider that the pricing reflects normal commercial terms and is on terms no less favourable than those available from other independent third parties.

The proposed annual caps for the transactions under the memorandum 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 proposed annual caps are calculated based on the estimated volume and prices of purchase pursuant to the terms of the memorandum with reference to the transaction volume of potash purchased for the previous years, and taking into account possible increasing demand for potash imports into the PRC for the relevant years.

For further details, please refer to the announcements dated 9 March 2006 and 20 April 2006, and the circular dated 25 May 2006. The transaction has been approved by the shareholders at the special general meeting held on 9 June 2006.

(19) Provision of Port Services to Sinochem Fertilizer by Qingdao Gangxing

Sinochem Fertilizer is the indirectly wholly-owned subsidiary of the Company. Qingdao Gangxing is held as to approximately 27% by Rillfung, 13.5% by Sinochem International, 39.7% by Qingdao Gang (Group) Company Limited, 10% by Zhongnong Transportation Company and 9.8% by Zhongnong Tianjin Company. Rillfung and Sinochem International are subsidiaries of Sinochem Corporation and 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 RMB12,000,000, RMB15,000,000 and RMB18,000,000, respectively.

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

Directors' Report

(20) (i) Beijing Sinochem Distribution Purchase Fertilizer Products from Tianji Sinochem; (ii) Beijing Sinochem Distribution Purchase Fertilizer Products from Tianji Coal

On 28 April 2006 when the Company published the announcement on the corporation transactions, Beijing Sinochem Distribution was in the process of incorporation. Upon incorporation it will become an indirectly non-wholly owned subsidiary of the Company, held as to 60% by Sinochem Fertilizer and 40% by Tianji Coal. Since Tianji Sinochem is held as to 60% by Tianji Coal and as to 40% by Sinochem Corporation, Tianji Sinochem is an associate of Sinochem Corporation and a connected person of the Company within the meaning of the Listing Rules. Beijing Sinochem Distribution was incorporated on 11 July 2006; in addition, Tianji Coal is a substantial shareholder of Beijing Sinochem Distribution. Therefore, Tianji Sinochem also constitutes an associate of Tianji Coal and a connected person of the Company within the meaning of the Listing Rules. Upon the incorporation of Beijing Sinochem Distribution on 11 July 2006, Beijing Sinochem Distribution and Tianji Sinochem entered into the Tianji Gaoping Distribution Agreement. According to the terms and conditions of this agreement, Beijing Sinochem Distribution had been granted a right to sell the fertilizer products and the related raw materials produced by Tianji Sinochem in China or other regions as agreed by both parties.

In addition, upon the incorporation of Beijing Sinochem Distribution on 11 July 2006, Beijing Sinochem Distribution and Tianji Coal entered into the Tianji Coal Distribution Agreement pursuant to which, subject to the terms and conditions of this agreement, Beijing Sinochem Distribution 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 purchase 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 involving Tianji Coal, Tianji Sinochem and Sinochem Distribution 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 transactions had been duly approved by the independent shareholders at the special general meeting held on 9 June 2006. For the detailed information, please refer to the announcements published by the Company on 28 April 2006, the circular dated 25 May 2006 and the announcement dated 9 June 2006.

As at the date of this annual report, the Company had completed the acquisition of 40% equity interest in Tianji Sinochem held by Sinochem Corporation. Accordingly, pursuant to the Listing Rules, as Beijing Sinochem Distribution is an indirectly non-wholly owned subsidiary of the Company, and is held as to 60% by Sinochem Fertilizer and 40% by Tianji Coal, therefore, Tianji Coal and its associate constitute the connected persons of the Company, the Tianji Coal Distribution Agreement and Tianji Gaoping Distribution Agreement between the Company and Tianji Coal, the Company's subsidiary and Tianji Sinochem (a non-wholly owned subsidiary in which Tianji Coal holds 60% equity interest) still constitute the connected transactions of the Company.

Directors' Report

(21) Sinochem Fertilizer Purchase Fertilizer Products from Beijing Sinochem Distribution

On 28 April 2006 when the Company published the announcement on the connected transactions, Tianji Sinochem was held as to 40% by Sinochem Corporation and as to 60% by Tianji Coal, as such Tianji Coal, the holding company of Tianji Sinochem, became an associate of Sinochem Corporation, a substantial shareholder of the Company. Beijing Sinochem Distribution 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. Upon the incorporation of Beijing Sinochem Distribution on 11 July 2006, Beijing Sinochem Distribution and Sinochem Fertilizer entered into the Beijing Procurement Agreement pursuant to which Sinochem Fertilizer will purchase fertilizer related products and raw materials from Beijing Sinochem Distribution 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 transactions had been duly approved by the independent shareholders at the special general meeting held on 9 June 2006. For the detailed information, please refer to the announcement published by the Company on 28 April 2006, the circular dated 25 May 2006, and the announcement dated 9 June 2006.

As at the date of this annual report, the Company had completed the acquisition of 40% equity interest in Tianji Sinochem held by Sinochem Corporation. Accordingly, pursuant to the Listing Rules, Beijing Sinochem Distribution is no longer a connected person of the Company, as such the transactions entered into with it by Sinochem Fertilizer will no longer be connected transactions.

(22) Fertilizer Purchase Agreement with US Agri-Chemicals

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducts certain continuing connected transactions with its connected person, US Agri-Chemicals, in respect of the transactions carried out under the Fertilizer Purchase Agreement. Such continuing connected transactions expired during the year ended 31 December 2007.

US Agri-Chemicals is an indirectly wholly-owned subsidiary of Sinochem Corporation. US Agri-Chemicals entered into a purchase agreement with Sinochem Macao on 6 June 2005 for the purchase and supply of fertilizer products. The agreement has a term not exceeding three years, commencing on the date it was entered into and expired on 31 December 2007. Pursuant to the purchase agreement, Sinochem Macao shall place purchase orders with US Agri-Chemicals direct at any time, setting out in each order the quantity and quality of fertilizer products required, price, payment terms, delivery and shipping requirements and other customary instructions relating to the purchase. Sinochem Macao is not obliged to purchase fertilizers from US Agri-Chemicals. It is stipulated in the agreement that each purchase shall be on normal commercial terms and the price shall be agreed between the parties and determined based on the fair market prices of the relevant products in the international market at the time the purchase order is placed.

Directors' Report

The Fertilizer Group estimates that the maximum annual amount of purchases of fertilizer products by Sinochem Macao from US Agri-Chemicals will be approximately US$52,200,000 (equivalent to RMB431,694,000), US$69,000,000 (equivalent to RMB570,630,000) and US$71,300,000 (equivalent to RMB589,651,000), respectively for each of the three years ended 31 December 2007. Such estimates are calculated based on projected quantities of purchase and projected average price per ton of products for each of the relevant years.

For more details, please refer to the Company's circular dated 13 June 2005.

(23) Service Agreement with US Chem Resources

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducted continuing connected transactions with its connected person, US Chem Resources, in respect of the transactions carried out under the Service Agreement. Such continuing connected transactions expired during the year ended 31 December 2007.

US Chem Resources is an indirectly wholly-owned subsidiary of Sinochem Corporation. US Chem Resources was in the past one of the entities used by the Fertilizer Group for overseas procurement. Pursuant to the Reorganisation, such function will be assumed by Sinochem Macao and US Chem Resources will cease all its fertilizer procurement business with the Fertilizer Group.

US Chem Resources entered into an agreement with Sinochem Macao on 6 June 2005. This agreement has a term not exceeding three years, commencing on the date it was entered into and expired on 31 December 2007. Pursuant to the agreement, US Chem Resources shall provide local supplier relations and logistics services to Sinochem Macao in the United States at cost (which mainly includes salaries and employee benefits, office rent, repair and maintenance, utilities and other administrative costs). The fee payable by Sinochem Macao shall be US$2 (equivalent to RMB16.54) per ton of products Sinochem Macao purchased from its suppliers and in respect of which US Chem Resources has provided service. US Chem Resources and Sinochem Macao may by agreement in writing adjust the fee payable in accordance with changes in operation expenses of US Chem Resources. The total amount of fee payable by Sinochem Macao to US Chemical Resources under the agreement shall not exceed US$2,000,000 (equivalent to RMB16,540,000) each calendar year. Such services are required by the Fertilizer Group as it does not have any staff working in the United States.

For more details, please refer to the Company's circular dated 13 June 2005.

(24) Sales services provided by Sinochem Zhisheng to Yongan Zhisheng

As disclosed in the 2005 Circular, the Group, in its ordinary and usual course of business, conducted continuing connected transactions with its connected person, Yongan Zhisheng, in respect of the provision of sales services. Such continuing connected transactions expired during the year ended 31 December 2007.

Sinochem Zhisheng is a joint venture company held as to 53.19% by Sinochem Fertilizer and 46.81% by Yongan Zhisheng. Sinochem Zhisheng entered into an agreement with Yongan Zhisheng on 28 July 2002 under which Sinochem Zhisheng agreed to sell all the urea for agricultural use produced by Yongan Zhisheng on the latter's behalf. The agreement has a term of 15 years, commencing on the date it was entered into.

Pursuant to the agreement, Yongan Zhisheng shall not sell any urea for agricultural use to other third parties from the date of the agreement. Sinochem Zhisheng has the right to determine the price of urea for agricultural use it sells on behalf of Yongan Zhisheng on a reasonable and timely basis according to market conditions. Yongan Zhisheng may supervise the pricing process. Yongan Zhisheng pays Sinochem Zhisheng a fee equal to not more than 0.5% of the price Sinochem Zhisheng sold the urea for agricultural use. Pursuant to the agreement, Yongan Zhisheng will deliver urea for agricultural use to Sinochem Zhisheng upon receipt of the purchase price net of the fee due and payable by Yongan Zhisheng to Sinochem Zhisheng ("Net Purchase Price"). Sinochem Zhisheng shall bear the economic loss if the sales revenue received by Sinochem Zhisheng falls short of the purchase price paid to Yongan Zhisheng.

The amount of Net Purchase Price paid by Sinochem Zhisheng to Yongan Zhisheng under the above agreement for the five months ended 31 December 2002 and each of the two years ended 31 December 2004 was RMB48,022,000, RMB141,320,000 and RMB130,340,000, respectively.

The maximum annual amount of Net Purchase Price payable by Sinochem Zhisheng to Yongan Zhisheng under the above agreement for each of the three years ended 31 December 2007 is estimated to be RMB130,626,000. Such estimate is calculated based on projected quantities of sales for each of the relevant years, having regard to historical quantities.

For more details, please refer to the Company's circular dated 13 June 2005.

Directors' Report

4. The annual caps approved for continuing connected transactions in the year 2007 are set out below:

Continuing Connected Transactions subject to Independent Shareholders' Approval Requirements

	Name of Transactions	Currency	Annual Caps of Year 2007	Actual Transacted Amount Term Year 2007
(1)	Import Service Framework Agreement – Sinochem Corporation imports from Sinochem Macao (The annual caps for the transactions for the years ending 31 December 2008, 31 December 2009 and 31 December 2010 have been approved by the shareholders in a general meeting held on 28 December 2007.)	USD	1,531,463,000	1,354,701,825
(2)	Import Service Framework Agreement – Sinochem Fertilizer purchases from Sinochem Corporation (The annual caps for the transactions for the years ending 31 December 2008, 31 December 2009 and 31 December 2010 have been approved by the shareholders in a general meeting held on 28 December 2007.)	RMB	14,991,000,000	9,291,214,677
(3)	Sinochem Macao purchases from US Agri-chem	USD	71,300,000	–
(4)	Sinochem Fertilizer purchases from Sinochem Shandong (As the acquisition of Sinochem Shandong was completed in February 2008, Sinochem Shandong became a subsidiary of the Company. Being no longer a connected person, and the above transaction will not be subject to connected transaction requirement from thereon)	RMB	1,850,000,000	611,275,325

Name of Transaction	Currency	Annual Cap for Year 2007	Actual Transacted Amount for Year 2007
(5) Sinochem Fertilizer sells fertilizer products to Sinochem Shandong (The range of transacted products and caps had been increased, please refer to the announcement dated 28 April 2006. The acquisition of Sinochem Shandong will be completed in 2008. Upon completion of the acquisition, Sinochem Shandong will become a subsidiary of the Company and will no longer be a connected person, and the above transaction will not be subject to connected transaction requirement.)	RMB	508,600,000	266,549,090
(6) Sinochem Macao imports Canadian potash from Canpotex International Pte. Limited (Please refer to the announcements on 9 March and 20 April 2006)	HK$	4,300,000,000	3,200,955,508
(7) (i) Beijing Sinochem Distribution purchases fertilizer products from Tianji Sinochem (Please refer to the announcement on 28 April 2006)	RMB	962,000,000	570,332,241
(ii) Beijing Sinochem Distribution purchases fertilizer products from Tianji Coal (Please refer to the announcement on 28 April 2006)			
(8) Sinochem Fertilizer purchases fertilizer products from Beijing Sinochem Distribution (Please refer to the announcement on 28 April 2006)	RMB	962,000,000	570,332,241

Directors' Report

Continuing Connected Transactions exempt from Independent Shareholders' Approval Requirements but subject to Reporting and Announcement Requirements

Name of Transaction		Currency	Annual Cap for Year 2007	Actual Transacted Amount for Year 2007
(9)	Qingdao Gangxin provides port services to Sinochem Fertilizer (Please refer to the announcement on 28 April 2006)	RMB	15,000,000	9,233,942
(10)	Sinochem UK provides agency services to Sinochem Macao (The annual caps for the transactions for the years ending 31 December 2008, 31 December 2009 and 31 December 2010 have been approved by the Board of Directors on 13 November 2007. Please refer to the announcement dated 16 November 2007 for detailed information.)	USD	2,000,000	1,361,396
(11)	US Chem Resources, Inc. provides agency services to Sinochem Macao	USD	2,000,000	–
(12)	Tianjin Port provides/logistic services business to Tianjin Beifang (The annual caps for the transactions for the years ending 31 December 2008, 31 December 2009 and 31 December 2010 have been approved by the Board of Directors on 13 November 2007. Please refer to the announcement dated 16 November 2007 for detailed information.)	RMB	100,000,000	65,885,773
(13)	Sinochem Zhisheng acts as sales agent for Yongan Zhisheng	RMB	130,626,000	–
(14)	Yongan Zhisheng supplies raw materials to Sinochem Zhisheng (The annual caps for the transactions for the years ending 31 December 2008, 31 December 2009 and 31 December 2010 have been approved by the Board of Directors on 13 November 2007. Please refer to the announcement dated 16 November 2007 for detailed information.)	RMB	63,968,808	48,559,758

Name of Transaction	Currency	Annual Cap for Year 2007	Actual Transacted Amount for Year 2007
(15) (i) Tianjin Beihai provides logistics services to Sinochem Fertilizer (Please refer to the announcement on 24 February 2006)	RMB	126,000,000	3,047,237
(ii) Tianjin Beihai provides packing services to Tianjin Beifang (Please refer to the announcement on 24 February 2006)			
(16) PCS Sales supply potash magnesia to Sinochem Macao	USD	4,840,000	–
(17) Tianjin Port Service Agreement entered into between Tianjin Beifang and Tianjin Sinochem Storage	RMB	16,200,000	358,487
(18) Sales Agreement entered into between Tianji Group Potash and Sinochem Fertilizer	RMB	19,950,000	14,329,355
(19) Property leasing agreement entered into between Sinochem Fertilizer and Chemsunny	RMB	6,606,092	6,285,302

Notes: Pursuant to Listing Rules, upon the completion of the Company's acquisition of Sinochem Shandong, the latter will no longer be a connected party, and any transaction between them will not deemed to be a connected transaction, and will not be limited by any transaction caps.

5. Confirmation from Independent Non-Executive Directors

In the opinion of the Independent Non-executive Directors, the continuing connected transactions for the year ended 31 December 2007 were entered into by the Group:

- in the ordinary and usual course of its business;
- either on normal commercial terms or, where there are no sufficiently comparable transactions, on terms no less favorable than the terms the Company could have obtained from an independent third party; and
- 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.

Directors' Report

The Board of Directors has received a letter from the Auditors, expressing that these connected transactions:

- have received the approval of the Board of Directors;
- have been entered into in accordance with the terms of the relevant agreements governing such transactions;
- have not exceeded the relevant caps for the financial year ended 31 December 2007; and
- have been entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties.

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 the Company and/or its subsidiaries with Sinochem Corporation and/or its subsidiaries are provided in detail in the sections headed "Connected Transactions" and "Major Discloseable Events" in the Directors' Report.

Major Discloseable Events

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

On 4 June 2007, Big Day Limited, an indirectly wholly-owned subsidiary of the Company, subscribed 49,900,000 new shares of China XLX Fertiliser Ltd (Singapore Exchange Ltd. stock code: CXLX) at SGD 0.77 per share. The shares were issued and placed to Big Day Limited on 19 June 2007, which represented 4.99% of the issued shares of China XLX Fertiliser Ltd on that day.

On 10 July 2007, the Company raised net proceeds of approximately HK$2,322,000,000 through the Top-up Placing of 400,000,000 ordinary shares of HK$0.1 each, with aggregate norminal value of HK$40,000,000, at a price of HK$5.90 per share on the first old then new basis to not less than six independent individual investors. The placing price represented a 5.75% discount to the closing price of HK$6.26 on 10 July 2007. As at 10 July 2007, the Placing Shares represent approximately 6.89% of the issued share capital of the Company of 5,809,286,726 Shares and approximately 6.44% of the Company's issued share capital as enlarged by the issue of the New Shares. The Vendor is the controlling shareholder of the Company and as at 10 July 2007, it held approximately 53.5% of the Company's issued share capital. The Vendor will hold approximately 50.1% of the issued share capital of the Company as enlarged by the allotment of the New Shares immediately after completion of the Placing and the Subscription. The net proceeds from the Subscription were used for the development of the fertilizer production business, expanding the nationwide fertilizer distribution network, and for general corporate purposes. As at 31 December 2007, HK$2,242,000,000 were used for fertilizer production business, HK$21,000,000 were used for expansion of distribution network, and the rest were used for general corporate purposes.

Directors' Report

On 16 October 2007, the Company exercised its option right and entered into an acquisition agreement（上市公司國有股權轉讓協議）with Sinochem Corporation through Sinochem Fertilizer Company Ltd., a wholly-owned subsidiary of the Company, for the acquisition of 141,907,561 ordinary shares in Qinghai Salt Lake for a consideration of RMB47.49 per Sale Share. The total consideration was approximately RMB6,739,190,000. Upon the completion of the sale and purchase, Sinochem Fertilizer will hold 141,907,561 ordinary shares in Qinghai Salt Lake, representing approximately 18.49% of its total issued share capital, and will become the second largest shareholder in Qinghai Salt Lake, the shares are circulating shares with selling restrictions.

On 28 October 2007, Sinochem Fertilizer Company Limited entered into a joint venture agreement with Guizhou Hongfu Industrial Development Co., Ltd. and Gansu Jinchang Chemical Industrial (Group) Co. Ltd. Sinochem Fertilizer agreed to purchase 30% of the equity interest in Gansu Wengfu for a total consideration of RMB22,500,000. For detailed information in respect of the aforesaid transaction, please refer to the announcement issued by the Company on 28 October 2007.

On 2 November 2007, the Company entered into a subscription agreement with substantial shareholders Sinochem HK and PCS pursuant to which Sinochem HK and PCS agreed to subscribe and the Company agreed to issue and allot 714,285,714 Subscription Shares at a Subscription Price of HK$7.00 per Subscription Share. The Sinochem HK Subscription Shares and the PCS Subscription Shares represent approximately 8.37% and 3.13% respectively of the issued share capital of the Company and approximately 7.51% and 2.81% respectively of the issued share capital of the Company as enlarged by the Subscription. As at 2 November 2007, the Subscription Shares represent approximately 11.50% of the issued share capital of the Company and approximately 10.31% of the issued share capital of the Company as enlarged by the Subscription. The Subscription Price of HK$7.00 per Subscription Share was arrived at after arm's length negotiation between the Company, Sinochem HK and PCS, with reference to the recent market trading price of the Shares. The entire net proceeds from the Subscription amounted to approximately HK$5,000,000,000 and will be used to finance the proposed acquisition of Sinochem Corporation's 141,907,561 shares in Qinghai Salt Lake. The transaction has been approved at the extraordinary general meeting of Shareholders held on 28 December 2007.

On 28 November 2007, the Company announced that it exercised the Option in respect of the acquisition of Sinochem Corporation's interests in Tianji JV and Sinochem Shandong. The Company entered into the Tianji Acquisition Agreement and Shandong Acquisition Agreement with Sinochem Corporation, agreeing to acquire from Sinochem Corporation a 40% equity interest in Tianji JV and a 51% equity interest in Sinochem Shandong. The total consideration for the Tianji Acquisition is approximately RMB208,830,000 (equivalent to approximately HK$218,850,000), and the total consideration for the Shandong Acquisition is approximately RMB56,380,000 (equivalent to approximately HK$59,090,000). The above considerations were determined based on the estimated value of Tianji JV and Sinochem Shandong and by the arm's length negotiation between Sinochem Corporation and the Company. The Directors of the Company are of the view that the terms of the acquisition agreement are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole. The transaction has been approved at the extraordinary general meeting of Shareholders held on 28 December 2007.

Directors' Report

Pre-emptive Rights

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

Purchase, Sale or Redemption of the Company's Listed Securities

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

Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has sufficient public float exceeding 25% of its issued shares as required by the Listing Rules throughout the year ended 31 December 2007.

Remuneration Policy

The emoluments of the Directors of the Company are reviewed by the Remuneration Committee of the Company from time to time with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the remuneration policy of the Group are set out in the "Corporate Governance Report" on pages 42 to 43.

Retirement Benefits Scheme

Details of the retirement benefits schemes of the Group are set out in note 41 to the consolidated financial statements.

Housing Funds

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

Post Balance Sheet Events

Details of significant events occurring after the balance sheet date are set out in note 42 to the consolidated financial statements.

Auditors

The consolidated financial statements of the Group for the year ended 31 December 2007 have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

The consolidated financial statements of the Group for the year ended 31 December 2006 and 2005 were audited by Messrs. Deloitte Touche Tohmatsu and Messrs. PricewaterhouseCoopers respectively.

On behalf of the Board

Liu De Shu
Chairman

Hong Kong, 28 March 2008

Independent Auditor's Report

Deloitte.
德勤

TO THE MEMBERS OF SINOFERT 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 86 to 155, which comprise the consolidated balance sheet as at 31 December 2007, 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 control relevant to the entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, 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 2007 and of the Group's 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
28 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover	7	**29,436,834**	21,126,571
Cost of sales		**(26,667,629)**	(19,419,304)
Gross profit		**2,769,205**	1,707,267
Other income	8	**143,545**	126,407
Distribution and selling expenses		**(585,010)**	(535,249)
Administrative expenses		**(268,278)**	(187,268)
Other expense		**(9,769)**	(17,732)
Changes in fair value of derivatives		**(623,185)**	(1,865)
Loss on settlement of convertible loan notes		**(203,311)**	–
Share of results of jointly controlled entities	20	**55,899**	41,037
Finance costs	9	**(268,849)**	(128,624)
Profit before tax		**1,010,247**	1,003,973
Income tax expense	13	**(324,777)**	(99,191)
Profit for the year	10	**685,470**	904,782
Attributable to			
Equity holders of the Company		**663,306**	896,246
Minority interests		**22,164**	8,536
		685,470	904,782
Dividends	14		
– Proposed		**192,875**	134,437
– Paid		**134,195**	116,740
Earnings per share	15		
Basic		**HK11.06 cents**	HK15.43 cents
Diluted		**HK11.02 cents**	HK15.41 cents

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current Assets			
Investment properties	16	**15,582**	14,532
Property, plant and equipment	17	**1,081,277**	900,986
Prepaid lease payments	18	**108,867**	106,766
Mining right	19	**25,372**	23,648
Interests in jointly controlled entities	20	**617,437**	381,656
Available-for-sale investments	21	**1,257,969**	290,419
Advance payment to ultimate holding company	26	**2,242,369**	–
Advance payment for acquisition of property, plant and equipment		**142,533**	–
Goodwill	22	**356,503**	356,503
Deferred taxation assets	32	**9,121**	9,422
		5,857,030	2,083,932
Current Assets			
Inventories	24	**6,943,248**	4,364,565
Prepaid lease payments	18	**2,362**	2,233
Trade and bills receivables	25	**1,222,977**	1,272,357
Advance payments and other receivables		**1,902,221**	1,293,856
Amount due from ultimate holding company	26	**8,104**	41,765
Bills discounted to banks	27	**2,249,083**	1,364,806
Pledge bank deposits	28	**7,996**	6,287
Bank balances and cash	28	**114,012**	79,274
		12,450,003	8,425,143
Current Liabilities			
Trade and bills payable	29	**2,117,647**	1,815,256
Receipts in advance and other payable		**1,881,728**	939,177
Bank advances from discounted bills	27	**2,249,083**	1,366,647
Derivative financial liabilities	30	**657,357**	86,457
Taxation payable		**152,651**	47,791
Borrowings	31	**1,310,728**	99,118
		8,369,194	4,354,446
Net Current Assets		**4,080,809**	4,070,697
Total Assets less Current Liabilities		**9,937,839**	6,154,629

Consolidated Balance Sheet

At 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Capital and Reserves			
Issued equity	33	**3,103,551**	767,766
Reserves		**4,883,594**	3,580,586
Equity attributable to shareholders of the Company		**7,987,145**	4,348,352
Minority interests		**233,043**	195,619
Total Equity		**8,220,188**	4,543,971
Non-current Liabilities			
Convertible loan notes	30	**911,580**	1,220,407
Borrowings	31	**606,044**	363,152
Deferred income		**9,396**	–
Deferred taxation liabilities	32	**190,631**	27,099
		1,717,651	1,610,658
		9,937,839	6,154,629

The consolidated financial statements on pages 86 to 155 were approved and authorised for issue by the board of directors on 28 March 2008 and are signed on its behalf by:

Liu De Shu
Director

Du Ke Ping
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	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 2006	767,766	245,632	270,225	278,778	–	–	26,788	1,885,469	3,474,658	186,055	3,660,713
Gain on fair value changes of available-for-sale investments	–	–	–	–	40,106	–	–	–	40,106	–	40,106
Exchange differences arising on translation of foreign operations	–	–	–	–	–	–	61,896	–	61,896	7,034	68,930
Deferred taxation liability arising on fair value changes of available-for-sale investments	–	–	–	–	(13,235)	–	–	–	(13,235)	–	(13,235)
Net 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
Net income recognised for the year	–	–	–	–	26,871	–	61,896	896,246	985,013	15,570	1,000,583
Recognition of equity-settled share-based payment	–	–	–	–	–	5,421	–	–	5,421	–	5,421
Dividends paid	–	–	–	–	–	–	–	(116,740)	(116,740)	–	(116,740)
Dividends 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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	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
Gain on fair value changes of available-for-sale investments	-	-	-	-	750,938	-	-	-	750,938	-	750,938
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	192,688	-	192,688	15,128	207,816
Deferred taxation liability arising on fair value changes of available-for-sale investments	-	-	-	-	(176,431)	-	-	-	(176,431)	-	(176,431)
Net income recognised directly in equity	-	-	-	-	574,507	-	192,688	-	767,195	15,128	782,323
Profit for the year	-	-	-	-	-	-	-	663,306	663,306	22,164	685,470
Net income recognised for the year	-	-	-	-	574,507	-	192,688	663,306	1,430,501	37,292	1,467,793
Shares issued upon conversion of convertible loan notes *(note 33)*	13,757	-	-	-	-	-	-	-	13,757	-	13,757
New shares issued *(note 33)*	2,360,000	-	-	-	-	-	-	-	2,360,000	-	2,360,000
Transaction costs attributable to issue of shares	(37,972)	-	-	-	-	-	-	-	(37,972)	-	(37,972)
Recognition of equity-settled share-based payment	-	-	-	-	-	6,702	-	-	6,702	-	6,702
Contribution from minority shareholders	-	-	-	-	-	-	-	-	-	782	782
Dividends paid	-	-	-	-	-	-	-	(134,195)	(134,195)	-	(134,195)
Dividends paid to minority shareholders	-	-	-	-	-	-	-	-	-	(650)	(650)
Transfer	-	-	-	70,172	-	-	-	(70,172)	-	-	-
At 31 December 2007	3,103,551	245,632	270,225	374,120	601,378	12,123	281,372	3,098,744	7,987,145	233,043	8,220,188

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 (already written off) 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 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before tax	**1,010,247**	1,003,973
Adjustments for		
Share of results of jointly controlled entities	**(55,899)**	(41,037)
Release of prepaid lease payments	**2,329**	995
Depreciation of property, plant and equipment	**80,569**	67,788
Loss on disposal of property, plant and equipment	**3,251**	261
Increase in fair value of investment properties credited to the income statement	**–**	(17,306)
Interest income	**(34,841)**	(20,192)
Finance cost	**268,849**	128,624
Dividend income	**(7,252)**	(581)
Gain on disposal of trading securities	**–**	(9,517)
Gain on disposal of investment properties	**–**	(25,466)
Loss on disposal of land use right	**2,045**	–
Loss on disposal of subsidiary	**–**	3,473
Impairment losses and allowance reversal	**(99)**	429
Loss on settlement of convertible loan notes	**203,311**	–
Fair value changes in derivative financial instruments	**623,185**	1,865
Write-back of provision for inventories	**(8,970)**	(28,260)
Recognition of share-based payment expenses	**6,702**	5,421
Operating cash flows before movements in working capital	**2,093,427**	1,070,470
(Increase) decrease in inventories	**(2,569,713)**	568,116
Decrease (increase) in trade and bills receivables	**49,479**	(406,447)
Increase in advance payments and other receivables	**(602,303)**	(823,936)
Increase (decrease) in trade and bill payables	**302,391**	(1,495,145)
Increase in receipts in advance and other payables	**1,092,113**	1,307,492
Decrease (increase) in amount due from ultimate holding company	**33,661**	(41,765)
Decrease in trading securities	**–**	9,517
(Increase) decrease in bills discounted to banks	**(884,277)**	1,841
Cash (used in) generated from operations	**(485,222)**	190,143
Income tax paid	**(237,660)**	(113,017)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(722,882)**	77,126

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 *HK$'000*	2006 *HK$'000*
INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(185,683)**	(300,272)
Purchase of available-for-sales investments	**(197,518)**	(236,632)
Advance payment made to ultimate holding company for acquisition of equity investment	**(2,242,369)**	–
Increase in advance payment made for acquisition of property, plant and equipment	**(142,533)**	–
Additional investments in jointly controlled entities	**(167,052)**	(2,927)
Dividends received from jointly controlled entities	**23,117**	43,134
Dividend received on unlisted investments	**7,252**	581
Proceeds from disposal of investment properties	**–**	190,642
Interest received	**34,841**	20,192
Proceeds from disposal of subsidiary	**–**	(1,573)
Proceeds from disposal of property, plant and equipment	**–**	3,552
Increase in pledged bank deposits	**(1,709)**	(6,287)
NET CASH USED IN INVESTING ACTIVITIES	**(2,871,654)**	(289,590)
FINANCING ACTIVITIES		
Capital contributed by minority shareholders of subsidiaries	**782**	–
Interest paid	**(209,265)**	(95,980)
Receipts of government grants for acquisition of property, plant and equipments	**9,396**	–
Proceeds from issue of shares	**2,360,000**	–
Transaction costs attributable to issue of shares	**(37,972)**	–
Proceeds from issue of convertible bands, net of transaction costs	**–**	1,272,486
Proceeds from bank loans	**7,794,971**	6,910,972
Repayment of bank loans	**(6,415,805)**	(7,745,598)
Increase in bank advances from discounted bills	**882,436**	–
Repayment of convertible bonds	**(626,206)**	–
Dividends paid	**(134,195)**	(116,740)
Dividends paid to minority shareholders of subsidiaries	**(650)**	(2,180)
NET CASH FROM FINANCING ACTIVITIES	**3,623,492**	222,960
NET INCREASE IN CASH AND CASH EQUIVALENTS	**28,956**	10,496
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**79,274**	66,551
Effect of foreign exchange rate changes	**5,782**	2,227
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**114,012**	79,274

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

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 (established in Hong Kong) and its ultimate holding company is Sinochem Corporation (established in the People's of Republic China (the "PRC")). The address of the registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is Units 4601-4610, 46th Floor, Office Tower, Convention Plaza, 1 Harbour 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 Company's subsidiaries in PRC and Macao are Renminbi ("RMB") and United States dollar, respectively.

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 39.

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

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment

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. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

2. Application of new and revised Hong Kong Financial Reporting Standards (Continued)

The Group has not early applied the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Vesting Condition and Cancellation[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 11	HKFRS 2: Group and Treasury Share Transactions[3]
HK(IFRIC) – Int 12	Service Concession Arrangements[4]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009
[2] Effective for annual periods beginning on or after 1 July 2009
[3] Effective for annual periods beginning on or after 1 March 2007
[4] Effective for annual periods beginning on or after 1 January 2008
[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company are in the process of making an assessment of the impact of these standards or interpretations.

3. Significant accounting policies

The consolidated financial statements have been prepared on the historical cost basis, except for certain properties and 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 Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") 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 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.

3. Significant accounting policies (Continued)

Basis of consolidation (Continued)

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in 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.

Business combinations

The acquisition of businesses 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 recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized 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 recognized. 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 recognized 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 recognized.

Goodwill

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. Significant accounting policies (Continued)

Goodwill (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition of a business 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 the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

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 net assets 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 entity), 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. Significant accounting policies (Continued)

Revenue recognition

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

Sales of goods

– wholesales 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 the title of goods has been passed to the customer. Retail sales are usually settled 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 assets net carrying amount.

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

Property, plant and equipment

Property, plant and equipment held for the use in the production or supply of goods and services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. Significant accounting policies (Continued)

Prepaid lease payments

Prepaid lease payments represent payment for leasehold interests in land under operating lease arrangements and are released to 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 disposal. 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.

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.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

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.

3. Significant accounting policies (Continued)

Foreign currencies (Continued)

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. 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.

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 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 and liabilities 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'.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. Significant accounting policies (Continued)

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated 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 tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable 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 tax 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 tax 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 tax 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 tax 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 tax is also dealt with in equity.

3. 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 reserve 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 is 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 in the consolidated 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.

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.

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 receivables, 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 (see accounting policy on impairment loss on financial assets below).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. Significant accounting policies (Continued)

Financial instruments (Continued)

***Financial assets* (Continued)**

Available-for-sale financial assets

Available-for-sale financial assets of the Group are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, held-to-maturity investments or loans and receivables. 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 (see accounting policy on impairment loss on financial assets below).

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, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Impairment of financial assets **(Continued)**

For financial assets carried at amortised cost, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by the 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 Group's financial liabilities are other financial liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

3. Significant accounting policies (Continued)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

Convertible loan notes

Convertible loan notes issued by the Company are regarded as hybrid 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 conversion component is an embedded derivative. 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 component 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, other payable, bank advances for discounted bills and borrowings 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.

3. 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.

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 receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities 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 option 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 during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share option 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

4. Key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in note 3, management of the Company has made judgments, estimates and assumptions concerning the future that have a significant risk of causing a material adjustment on the amounts recognised in the consolidated financial statements within the next financial year.

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 2007, the carrying amount of goodwill is approximately HK$356,503,000.

5. Capital risk management

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in notes 30 and 31, (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. Financial instruments

(a) Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables		
(including cash and cash equivalents)	**3,766,410**	2,814,841
Available-for-sale financial assets	**1,257,969**	290,419
Financial liabilities		
Derivative financial liabilities	**657,357**	86,457
Amortised cost	**7,483,104**	4,924,016

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade and bills receivables, other receivables, amount due from ultimate holding company, bills discounted to banks, trade and bills payables, other payable, bank advances from discounted bills and convertible loan notes and borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures the risks. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

Foreign currency risk refers to the risk that movement in foreign currency exchange rate will affect the Group's financial results and its cash flows. The management considers the Group does not expose to significant foreign currency risk as majority of its transactions are denominated in RMB (the functional currency of the Company's major subsidiaries and relevant branches) and there were only insignificant balances of financial assets and liabilities denominated in foreign currency at the balance sheet dates as disclosed in notes 28 and 31. The 2 per cent is the rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign exchange rates. The management determined that there is insignificant effect to the profit or loss of the Group. However, the management monitors foreign currency exposure and will consider hedging significant foreign currency exposure should the need arise.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk **(Continued)**

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see notes 30 and 31 for details of these convertible loan notes and borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 31 for details of these borrowings). Cash flow interest rate risk in relation to bank balances and deposits is considered insignificant, Interest rate risk is managed by the directors of the Company on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China arising from the Group's RMB borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2007 would decrease/increase by approximately HK$8,212,000 (2006: decrease/increase by approximately HK$1,281,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate debt instruments.

6. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk **(Continued)**

(iii) Other price risk

The Group is exposed to equity price risk through its investments in equity securities and its derivative financial liabilities. The Group's equity price risk through the available-for-sale investments is mainly concentrated on equity instruments issued by companies operating in fertilizer industry sector quoted in the Stock Exchange of Shenzhen, the Stock Exchange of Shanghai, and the Stock Exchange of Singapore and the Company's shares listed in the Stock Exchange of Hong Kong Limited. The directors of the Company closely observe the share price movements of those securities relating to the investments in order to minimise the Group's exposure to the price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

Available-for-sale investments

If the prices of the respective listed equity instruments had been 5% higher/lower:

- investment valuation reserve would increase/decrease by approximately HK$47,910,000 (2006: increase/decrease by approximately HK$18,685,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Derivative financial liabilities

If the prices of the Company's shares had been 5% higher/lower:

- profit for the year ended 31 December 2007 would decrease/increase by approximately HK$63,000,000 (2006: decrease/increase by approximately HK$32,000,000) for the Group as a result of the changes in fair value of derivative financial liabilities.

In management's opinion, the sensitivity analysis above is unpresentative of price risk in derivative financial liabilities as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

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 2007 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 and bills receivables is limited because the counterparties are banks with high credit rating.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has available unutilised bank loan facilities of approximately HK$7,547,761,000 (2006: HK$8,349,185,000). Details of which are set out in note 31.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

***Liquidity risk* (Continued)**

Liquidity and interest risk tables

2007

	Weighted average interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total undiscounted cash flows	Carrying amount at 31/12/2007
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-derivative financial assets								
Bills discounted to banks	–	431,639	1,304,949	512,495	–	–	2,249,083	2,249,083
Bank balances and deposits	0.72	113,795	–	–	–	–	113,795	113,727
Others	–	842,501	552,819	–	–	–	1,395,320	1,395,320
		1,387,935	1,857,768	512,495	–	–	3,758,198	3,758,130
Non-derivative financial liabilities								
Trade and bills payables	–	(35,218)	(2,082,429)	–	–	–	(2,117,647)	(2,117,647)
Bank loans								
– fixed rate	6.543	(75,900)	(155,218)	(45,903)	–	–	(277,021)	(274,455)
– variable rate	7.094	(8,821)	(434,542)	(664,560)	(639,271)	(91,844)	(1,839,038)	(1,642,317)
Other payables	–	(288,022)	–	–	–	–	(288,022)	(288,022)
Bank advances from discounted bills	–	(431,639)	(1,304,949)	(512,495)	–	–	(2,249,083)	(2,249,083)
Convertible loan notes	–	–	–	–	(1,156,521)	–	(1,156,521)	(911,580)
		(839,600)	(3,977,138)	(1,222,958)	(1,795,792)	(91,844)	(7,927,332)	(7,483,104)
		548,335	(2,119,370)	(710,463)	(1,795,792)	(91,844)	(4,169,134)	(3,724,974)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

6. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk **(Continued)**

2006

	Weighted average interest rate %	Less than 1 month HK$'000	1-3 months HK$'000	3 months to 1 year HK$'000	1-5 years HK$'000	5+ years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31/12/2006 HK$'000
Non-derivative financial assets								
Bills discounted to banks	–	146,640	325,789	892,377	–	–	1,364,806	1,364,806
Bank balances and deposits	0.72	78,662	–	–	–	–	78,662	78,615
Others	–	99,591	1,264,883	–	–	–	1,364,474	1,364,474
		324,893	1,590,672	892,377	–	–	2,807,942	2,807,895
Non-derivative financial liabilities								
Trade and bills payables	–	(11,693)	(1,803,563)	–	–	–	(1,815,256)	(1,815,256)
Bank loans								
– fixed rate	5.964	(8,002)	(61,510)	(6,665)	(155,350)	–	(231,527)	(206,032)
– variable rate	6.473	(1,384)	(2,768)	(41,206)	(259,314)	–	(304,672)	(256,238)
Other payables	–	(59,436)	–	–	–	–	(59,436)	(59,436)
Bank advances from discounted bills	–	(146,640)	(325,789)	(894,218)	–	–	(1,366,647)	(1,366,647)
Convertible loan notes	–	–	–	–	(1,653,990)	–	(1,653,990)	(1,220,407)
		(227,155)	(2,193,630)	(942,089)	(2,068,654)	–	(5,431,528)	(4,924,016)
		97,738	(602,958)	(49,712)	(2,068,654)	–	(2,623,586)	(2,116,121)

6. Financial instruments (Continued)

(c) Fair value

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

- the fair value of financial assets and financial liabilities (including derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes-Merton model).

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values:

	2007		2006	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Financial liabilities				
Convertible loan notes	**911,580**	**950,229**	1,220,407	1,282,664

7. Business and geographical segments

For management reporting purposes, the Group is currently organised into two 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

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For the year ended 31 December 2007

7. Business and geographical segments (Continued)

Segment information about these business is as follows:

(a) Business segments

2007

	Sourcing and distribution *HK$'000*	Production *HK$'000*	Eliminated *HK$'000*	Total *HK$'000*
Turnover				
External sales	27,428,932	2,007,902	–	29,436,834
Inter-segment sales	193,890	689,497	(883,387)	–
Total	27,622,822	2,697,399	(883,387)	29,436,834

Inter-segment sales are charged at prevailing market rates.

	Sourcing and distribution *HK$'000*	Production *HK$'000*	Eliminated *HK$'000*	Total *HK$'000*
Results				
Segment results	1,937,054	11,236		1,948,290
Unallocated corporate incomes				127,955
Unallocated corporate expense				(26,552)
Loss on settlement of convertible loan notes				(203,311)
Fair value change on derivative financial instruments				(623,185)
Share of results of jointly controlled entities		55,899		55,899
Finance costs				(268,849)
Profit before tax				1,010,247
Income tax expense				(324,777)
Profit for the year				685,470

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2007 (Continued)

	Sourcing and distribution *HK$'000*	Production *HK$'000*	Total *HK$'000*
Assets			
Segment assets	11,817,325	2,943,000	14,760,325
Interests in jointly controlled entities	–	617,437	617,437
Unallocated corporate assets	–	–	2,929,271
Consolidated total assets			18,307,033
Liabilities			
Segment liabilities	3,845,398	2,400,772	6,246,170
Unallocated corporate liabilities	–	–	3,840,675
Consolidated total liabilities			10,086,845
Other Information			
Capital expenditure	7,328	194,311	201,639
Depreciation and amortisation	7,197	73,372	80,569

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

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 incomes					20,773
Unallocated corporate expense					(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 tax					1,003,973
Increase tax expense					(99,191)
Profit for the year					904,782

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2006 (Continued)

	Sourcing and distribution *HK$'000*	Production *HK$'000*	Others *HK$'000*	Total *HK$'000*
Assets				
Segment assets	8,235,368	1,575,922	10,072	9,821,362
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

(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 located outside the PRC.

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For the year ended 31 December 2007

8. Other income

	2007	2006
	HK$'000	*HK$'000*
Rental income	**2,076**	12,560
Dividend income from unlisted investments	**7,252**	581
Interest income from bank deposits	**34,841**	20,192
Government grants *(Note)*	**71,666**	13,749
Gain on disposal of investment properties	**–**	25,466
Increase in fair value of investment properties	**–**	17,306
Exchange gain	**2,736**	1,374
Gain on disposal of trading securities	**–**	9,517
Compensation received	**7,446**	12,832
Sales from scrapped materials	**8,144**	5,543
Others	**9,384**	7,287
	143,545	126,407

Note: In 2007 this mainly represented the income tax refund in respect of using dividends to reinvest in the entity in the PRC by foreign investor in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises.

In 2006 this represented the government grants received by the Group in accordance with CaiQi 2004 No.35 document, pursuant to which companies in the PRC engaging in the production and import of a particular phosphate-based fertilizer are entitled to government subsidy at RMB100 per ton.

9. Finance costs

	2007	2006
	HK$'000	*HK$'000*
Interest on bank borrowing wholly repayable		
– within five years	**205,367**	111,226
– after five years	**3,898**	–
Interest expense on convertible loan notes wholly repayable within five years	**75,540**	32,644
Total borrowing costs	**284,805**	143,870
Less: amounts capitalised	**15,956**	15,246
	268,849	128,624

Note: Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.69% (2006: 5.81%) to expenditure on qualifying assets.

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For the year ended 31 December 2007

10. Profit for the year

	2007	2006
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**80,569**	67,788
Release of prepaid lease payments	**2,329**	995
Auditors' remuneration	**4,432**	5,949
Directors' emoluments *(see note 11)*	**10,110**	6,141
Staff benefits *(Note)*	**236,956**	127,618
Total employee benefits expenses	**247,066**	133,759
Minimum lease payments under operating lease in respect of properties	**23,775**	14,959
Direct operating expenses arising from investment properties that generate rental income	**400**	5,031
(Reversal of provision for impairment) provision for impairment of receivables	**(99)**	429
Loss on disposal of property, plant and equipment	**3,251**	261
Loss on disposal of subsidiary	**–**	3,473
Loss on disposal of land use right	**2,045**	–
Write-back of provision for inventories	**(8,970)**	(28,260)

Note: Included in staff benefits are share-based payments and contribution to retirement benefits scheme for the year of HK$4,054,000 (2006: HK$3,137,000) and HK$18,885,000 (2006: HK$7,427,000) respectively.

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For the year ended 31 December 2007

11. Directors' remuneration

Directors' emoluments and employees' emoluments

Directors

The emoluments paid or payable to each of the directors were as follows:

	2007					
	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefits scheme contribution	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note)			
Mr. Liu De Shu	–	–	–	–	457	457
Mr. Song Yu Qing	–	–	–	–	348	348
Mr. Du Ke Ping	–	1,467	1,763	30	1,102	4,362
Mr. Harry Yang	–	1,747	1,101	–	366	3,214
Dr. Chen Guo Gang	–	–	–	–	348	348
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Ko Ming Tung, Edward	425	–	–	–	–	425
Dr. Li Ka Cheung, Eric (retired on 28 June 2007)	250	–	–	–	–	250
Dr. Tang Tin Sek	425	–	–	–	–	425
Mr. Tse Hau Yin Aloysius (appointed on 28 June 2007)	254	–	–	–	–	254
Mr. Wade Fetzer III	–	–	–	–	27	27
	1,354	3,214	2,864	30	2,648	10,110

11. Directors' remuneration (Continued)

Directors' emoluments and employees' emoluments (Continued)

Directors **(Continued)**

The emoluments paid or payable to each of the directors were as follows: (Continued)

	2006					
	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefits scheme contribution	Share-based payments	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(Note)			
Mr. Liu De Shu	–	–	–	–	387	387
Mr. Song Yu Qing	–	–	120	–	301	421
Mr. Du Ke Ping	–	1,134	652	17	994	2,797
Mr. Harry Yang	–	1,033	121	–	301	1,455
Dr. Chen Guo Gang	–	–	–	–	301	301
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Ko Ming Tung, Edward	260	–	–	–	–	260
Dr. Li Ka Cheung, Eric	260	–	–	–	–	260
Dr. Tang Tin Sek	260	–	–	–	–	260
Mr. Wade Fetzer III	–	–	–	–	–	–
	780	2,167	893	17	2,284	6,141

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

12. Employees' remuneration

Of the five individuals with the highest emoluments in the Group, two (2006: two) were directors of the Company, whose emoluments are included in the disclosed in note 11 above. The emoluments of the remaining three (2006: three) individuals were as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries and other benefits	**2,630**	2,795
Performance related incentive payments	**1,869**	1,405
Retirement benefits scheme contributions	**91**	56
	4,590	4,256

Their emoluments were within the following bands:

	Number of employee(s)	
	2007	2006
HK$1,000,001 to HK$1,500,000	**3**	3

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For the year ended 31 December 2007

13. Income tax expense

	2007	2006
	HK$'000	*HK$'000*
Current tax		
Hong Kong Profits Tax	**(20,119)**	(1,640)
PRC enterprise income tax	**(322,401)**	(100,769)
	(342,520)	(102,409)
Deferred taxation *(note 32)*		
Current year	**14,927**	3,218
Attributable to a change in tax rate	**2,816**	–
Taxation attributable to the Company and its subsidiaries	**(324,777)**	(99,191)

Hong Kong Profits Tax is calculated at 17.5% (2006: 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% (2006: 33%).

On 16 March 2007, the People's Republic of China promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Sinochem Chongqing Fuling Chemical Fertilizer Company ("Sinochem Fuling"), a 60% indirectly owned subsidiary of the Company, 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.

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.

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13. Income tax expense (Continued)

A statement of reconciliation of taxation is as follows:

	2007	2006
	HK$'000	*HK$'000*
Profit before tax	**1,010,247**	1,003,973
Tax calculated at the main applicable tax rate of 33% (2006: 33%)	**(333,382)**	(331,311)
Tax effect of expenses not deductible for tax purposes	**(272,933)**	(12,949)
Tax effect of preferential tax rate	**223,040**	163,312
Tax effect of income not taxable for tax purposes	**37,595**	67,414
Tax effect of share of results of jointly controlled entities	**18,447**	13,542
Effect of different income tax rates in jurisdictions	**33,122**	1,836
Effect of tax loss not recognised	**(31,942)**	–
Others	**1,276**	(1,035)
Income tax expense for the year	**(324,777)**	(99,191)

14. Dividends

	2007	2006
	HK$'000	*HK$'000*
Dividends recognised as distribution during the year:		
Final dividend for 2006, paid HK2.31 cents (for 2005: HK2.01 cents) per share	**134,195**	116,740
Proposed final dividend of HK2.76 cents (2006: HK2.31 cents) per share	**192,875**	134,437

The final dividend of HK2.76 cents (2006: HK2.31 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

(a) 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:

	2007	2006
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**663,306**	896,246
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**6,000,022**	5,807,950
Effect of dilutive potential shares – share options	**18,761**	8,050
Weighted average number of shares for the purpose of diluted earnings per share	**6,018,783**	5,816,000

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes as these notes were anti-dilutive.

(b) In order to provide additional information on the Group's performance, the basic and diluted earning per share excluding the impact of changes of fair value on derivatives is as follows:

	2007	2006
	HK$'000	*HK$'000*
Earnings for the purpose of basic and diluted earnings per share	**663,306**	896,246
Adjustment for changes in fair value of derivative component of convertible loan notes	**623,185**	1,865
Earnings excluding changes in fair value of derivatives component of convertible loan notes	**1,286,491**	898,111
Adjusted basic earnings per share	**HK21.44 cents**	HK15.46 cents
Adjusted diluted earnings per share	**HK21.37 cents**	HK15.44 cents

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16. Investment properties

	2007	2006
	HK$'000	*HK$'000*
FAIR VALUE		
At beginning of the year	**14,532**	160,000
Transfer from property, plant and equipment	**–**	14,226
Increase in fair value recognised in the consolidated income statement	**–**	17,306
Disposals	**–**	(177,000)
Exchange adjustment	**1,050**	–
At the end of the year	**15,582**	14,532

The investment properties of the Group are situated in the PRC.

The fair value of the Group's investment properties at 31 December 2007 have been arrived at on the basis of a valuation carried out on the date by CB Richard Ellis Limited, independent qualified professional valuers not connected with the Group. CB Richard Ellis Limited has appropriate qualifications and experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to HKIS 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.

Notes to the Consolidated Financial Statements

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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						
At 1 January 2006	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
Exchange realignment	20,710	31,905	2,141	7,405	19,963	82,124
Additions	276	348	1,884	6,011	193,120	201,639
Transfers from construction in progress	24,609	41,304	–	6,185	(72,098)	–
Disposals/write-off	(6,929)	(8,173)	(3,356)	(1,135)	–	(19,593)
At 31 December 2007	**313,048**	**487,956**	**32,483**	**117,941**	**350,275**	**1,301,703**
DEPRECIATION						
At 1 January 2006	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
Exchange realignment	1,612	6,650	665	3,529	–	12,456
Provided for the year	12,327	48,419	4,086	15,737	–	80,569
Eliminated on disposals/write-off	(410)	(5,189)	(2,469)	(1,078)	–	(9,146)
At 31 December 2007	**29,284**	**119,774**	**11,422**	**59,946**	**–**	**220,426**
CARRYING VALUES						
At 31 December 2007	**283,764**	**368,182**	**21,061**	**57,995**	**350,275**	**1,081,277**
At 31 December 2006	258,627	352,678	22,674	57,717	209,290	900,986

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For the year ended 31 December 2007

17. Property, plant and equipment (Continued)

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis based on the following expected useful lives:

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

18. Prepaid lease payments

	2007 ***HK$'000***	2006 *HK$'000*
The Group's prepaid lease payments comprise		
Leasehold land in the PRC		
Long lease	**73,724**	75,145
Medium-term lease	**37,505**	33,854
	111,229	108,999
Analysis for reporting purposes as		
Current asset	**2,362**	2,233
Non-current asset	**108,867**	106,766
	111,229	108,999

19. Mining right

The mining right on a phosphate reserve is held by a 60% owned subsidiary which was acquired 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.

The mining right will be expired in 2011 and is expected to be renewable at minimal cost.

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

20. Interests in jointly controlled entities

	2007 ***HK$'000***	2006 *HK$'000*
Cost of unlisted investments in jointly controlled entities	**517,923**	320,974
Share of post-acquisition profits, net of dividends received	**99,514**	60,682
	617,437	381,656

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20. Interests in jointly controlled entities (Continued)

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

	2007	2006
	HK$'000	*HK$'000*
At 1 January	**381,656**	367,861
Additions	**167,052**	2,927
Share of results before income tax	**66,165**	43,726
Share of income tax expense	**(10,266)**	(2,689)
Dividends paid	**(23,117)**	(43,134)
Exchange differences	**35,947**	12,965
At 31 December	**617,437**	381,656

The summarised financial information in respect of the Group's interest in jointly controlled entities which are accounted for using the equity method is as follows:

	2007	2006
	HK$'000	*HK$'000*
Financial position		
Non-current assets	**1,470,716**	414,143
Current assets	**682,442**	935,151
Non-current liabilities	**(713,530)**	(521,684)
Current liabilities	**(822,191)**	(445,954)
Net assets	**617,437**	381,656
Result for the year		
Income	**1,709,290**	796,622
Expenses	**1,643,125**	752,896

Details of the principal jointly controlled entities are set out in note 40.

Notes to the Consolidated Financial Statements

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21. Available-for-sale investments

	2007	2006
	HK$'000	*HK$'000*
Available-for-sale investments comprise:		
Listed equity securities	**1,248,070**	281,472
Unlisted equity securities	**11,277**	10,232
Less: impairment losses	**(1,378)**	(1,285)
	1,257,969	290,419

At the balance sheet date, all listed available-for-sale investments are stated at fair value which have been determined by reference to the quoted market bid price from the relevant stock exchange and the discount rate in connection with the lock-up period. The discount rate is approximately 8.50%.

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.

22. Goodwill

	HK$'000
At 1 January 2006 and 31 December 2006 and 2007	356,503

Particulars regarding impairment testing on goodwill are disclosed in note 23.

23. Impairment testing on goodwill

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 have been allocated to the cash generating units ("CGUs") of the related segments as follows:

	2007	2006
	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. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the year. Management estimates 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. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

At the balance sheet date, the Group performed impairment review for goodwill based on cash flow forecasts of each CGU derived from financial budgets of the next year approved by directors and a discount rate of 9.96% (2006:10.05%). Both sets of cash flows beyond the year 2008 are extrapolated using an average growth rate of 10.50% (2006: 10.50%) for the first eight years and a growth rate of 6.30% (2006: 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

	2007	2006
	HK$'000	*HK$'000*
Fertiliser merchandise and finished goods	**6,620,226**	4,091,594
Raw materials	**306,305**	252,689
Work in progress	**13,404**	15,071
Production supplies	**3,313**	5,211
	6,943,248	4,364,565

During the year, there was a significant increase in the net realisable value of fertilizer due to the increase of market price. As a result, a reversal of provision for inventory of HK$8,970,000 (2006: HK$28,260,000) has been recognised and included in cost of sales in the current year.

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For the year ended 31 December 2007

25. Trade and bills receivables

	2007	2006
	HK$'000	*HK$'000*
Trade receivables	**298,724**	92,038
Less: allowance for doubtful debts	**(741)**	(840)
	297,983	91,198
Bills receivables	**924,994**	1,181,159
Total trade and bills receivables	**1,222,977**	1,272,357

The Group allows its trade customers with credit periods normally within 90 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**286,180**	83,724
91 days to 180 days	**9,835**	1,463
181 days to 360 days	**467**	5,113
Over 360 days	**1,501**	898
	297,983	91,198

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

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK$11,803,000 (2006: HK$7,474,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 174 days (2006: 261 days).

Ageing of trade receivables which are past due but not impaired

	2007	2006
	HK$'000	*HK$'000*
91 days to 180 days	**9,835**	1,463
181 days to 360 days	**467**	5,113
Over 360 days	**1,501**	898
Total	**11,803**	7,474

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For the year ended 31 December 2007

25. Trade and bills receivables (Continued)

Movement in the allowance for doubtful debts

	2007	2006
	HK$'000	*HK$'000*
Balance at beginning of the year	**840**	411
Allowances provided for bad and doubtful debts	**313**	429
Amounts recovered during the year	**(412)**	–
Balance at end of the year	**741**	840

The following is an aged analysis of bills receivables at the balance sheet date:

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**266,639**	1,181,159
91 days to 180 days	**618,645**	–
Over 181 days	**39,710**	–
	924,994	1,181,159

26. Amount due from/advance payment to ultimate holding company

	2007	2006
	HK$'000	*HK$'000*
CURRENT ASSET		
Receivable arising from trade *(Note i)*	**8,104**	41,765
NON-CURRENT ASSET		
Prepayment for acquisition of equity investment *(Note ii)*	**2,242,369**	–

Note i: For the trade balance, the Group allows 120 days credit period to its ultimate holding company, at 31 December 2007, the balance is aged within 120 days.

Note ii: The balance represents the prepayment made to the ultimate holding company to acquire equity interest in Qinghai Salt Lake Potash Co., Ltd., Shandong Sinochem Fertilizer Co., Ltd. and Tianji Sinochem Gaoping Chemical Engineering Co., Ltd.

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27. Bills discounted to banks

The Group discounted certain bills receivables to banks with recourse in exchange for cash. The transactions have been accounted for as collateralised bank advances for the year ended 31 December 2007. The bills discounted to banks and remained outstanding as at 31 December 2007 amounted to HK$2,249,083,000 (2006: HK$1,364,806,000). The relevant bills are aged within 180 days.

28. Pledged bank deposits/bank balances, deposits and cash

Pledged bank deposits

The pledged deposits have been placed in designated banks as part of the securities provided for banking facilities granted to the Group. The carry prevailing market interest rate is 0.72% (2006: 0.72%) per annum.

Bank balance and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with originally maturity of three months or less, and carry prevailing market interests ranging from 0.72% to 4.35% (2006: 0.72% to 3.95%) 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:

	2007	2006
	HK$'000	*HK$'000*
United States dollar ("US$")	**5,166**	4,313

29. Trade and bills payable

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

	2007	2006
	HK$'000	*HK$'000*
Within 90 days	**2,082,429**	1,803,563
91 days to 180 days	**17,744**	1,427
181 days to 360 days	**8,097**	2,359
Over 360 days	**9,377**	7,907
	2,117,647	1,815,256

The average credit period on purchases of goods is 90 days.

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30. Convertible loan notes

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. According to the terms of the convertible loan notes, the Company has the option to pay the holder an amount of cash in Hong Kong dollars equal to the arithmetic average of the volume weighted average price of the shares for each day during the three consecutive stock exchange business days immediately after the cash settlement notice date, the next stock exchange business day following the date of delivery of the conversion notice. 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.

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 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%.

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30. Convertible loan notes (Continued)

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

	Liability component	**Derivative component**
	HK$'000	*HK$'000*
Amount initially recognised	1,187,763	84,592
Interest charge	32,644	–
Loss arising on changes of fair value	–	1,865
As at 31 December 2006	1,220,407	86,457
Convert to ordinary shares	(9,696)	(4,061)
Cash settled	(374,671)	(48,224)
Interest charge	75,540	–
Changes in fair value	–	623,185
As at 31 December 2007	**911,580**	**657,357**

The fair value of the derivative component at 31 December 2007 is determined based on the valuations performed by CB Richard Ellis Limited, an independent professionally qualified valuer, using the applicable option pricing model.

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31. Borrowings

	2007	2006
	HK$'000	*HK$'000*
Bank loans, secured	**99,317**	53,747
Bank loans, guaranteed	**21,924**	19,906
Bank loans, unsecured	**1,795,531**	388,617
	1,916,772	462,270
Carrying amount repayable:		
Within one year	**1,310,728**	99,118
More than one year, but not exceeding two years	**64,075**	94,415
More than two years, but not more than five years	**456,536**	268,737
More than five years	**85,433**	–
	1,916,772	462,270
Less: Amounts due within one year shown under current liabilities	**(1,310,728)**	(99,118)
Amounts due after one year	**606,044**	363,152

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or repricing dates) are as follows:

	2007	2006
	HK$'000	*HK$'000*
Fixed-rate borrowings:		
Within one year	**274,455**	66,687
More than one year, but not exceeding two years	**–**	79,626
More than two years, but not more than five years	**–**	59,719
	274,455	206,032

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31. Borrowings (Continued)

In addition, the Group has variable-rate borrowings. Interest is repricing in accordance with specific terms in the borrowing contracts.

	2007	2006
	HK$'000	*HK$'000*
Variable-rate borrowings:		
Within one year	**1,036,273**	32,431
More than one year, but not exceeding two years	**64,075**	14,789
More than two years, but not more than five years	**456,536**	209,018
More than five years	**85,433**	–
	1,642,317	256,238

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

	2007	2006
Effective interest rate:		
Fixed-rate borrowings	**5.508% to 8.964%**	5.964%
Variable-rate borrowings	**4.596% to 8.514%**	4.596% to 6.473%

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

	United States Dollars	**Hong Kong Dollars**
	HK$'000	*HK$'000*
As at 31 December 2007	19,059	1,100
As at 31 December 2006	–	4,850

During the year, the Group obtained new loans in the amount of approximately HK$1,262,652,000 to finance the acquisition of property, plant and equipment. The range of interest rates of these loans is 5.508% to 8.964% and will be repayable within six years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

31. Borrowings (Continued)

As at the balance sheet date, the Group has the following unutilised borrowing facilities:

	2007	2006
	HK$'000	*HK$'000*
Floating rate		
– expiring within one year	**3,029,775**	3,539,135
– expiring beyond one year	**4,517,986**	4,810,050
	7,547,761	8,349,185

At 31 December 2007, certain property, plant and equipment and prepaid lease payments with carrying values of approximately HK$175,107,000 and HK$3,922,000 (2006: HK$202,763,000 and HK$6,042,000) respectively were pledged to secure banking facilities granted to the Group.

32. Deferred taxation

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

	Undistributed profits of a subsidiary and jointly controlled entities	**Revaluation of investment properties**	**Revaluation of available-for-sale investments**	**Others**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2006	13,390	11,824	–	13,300	38,514
Credit to profit or loss 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 difference	474	–	–	195	669
At 31 December 2006	13,864	–	13,235	–	27,099
Credit to profit or loss for the year	(14,319)	–	–	–	(14,319)
Charge to equity for the year	–	–	180,805	–	180,805
Exchange difference	455	–	965	–	1,420
Effects of change in tax rate	–	–	(4,374)	–	(4,374)
At 31 December 2007	**–**	**–**	**190,631**	**–**	**190,631**

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32. 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 *HK$'000*	Provisions *HK$'000*	Impairment of property, plant and equipment *HK$'000*	Accumulated depreciation difference *HK$'000*	Total *HK$'000*
At 1 January 2006	(4,903)	(12,226)	(2,094)	–	(19,223)
(Credit) charge to profit or loss for the year	(375)	9,437	2,144	(929)	10,277
Exchange differences	(182)	(244)	(50)	–	(476)
At 31 December 2006	(5,460)	(3,033)	–	(929)	(9,422)
Charge (credit) to profit or loss for the year	225	1,999	–	(2,832)	(608)
Exchange differences	(360)	(105)	–	(184)	(649)
Effects of change in tax rate	716	1,002	–	(160)	1,558
At 31 December 2007	**(4,879)**	**(137)**	**–**	**(4,105)**	**(9,121)**

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred income tax assets in respect of losses amounting to approximately HK$506,028,000 (2006: HK$409,234,000) that can be carried forward against future taxable income.

33. Issued equity

(a) The movements in issued equity of the Group:

	2007 ***HK$'000***	2006 *HK$'000*
At the beginning of the year	**767,766**	767,766
Issue of new shares of par value of HK$0.10 each:		
Conversion of convertible loan notes *(Note i)*	**13,757**	–
New shares *(Note ii)*	**2,322,028**	–
At the end of the year	**3,103,551**	767,766

Due to the application of reverse acquisition basis of accounting during the year ended 31 December 2005, the amount of issued equity of the Group as at 31 December 2007, which included share capital and share premium in the consolidated balance sheet, represented the amount of issued equity of the legal subsidiary, China Fertilizer (Holdings) Company Limited, immediately before the acquisition of HK$78,000, the deemed cost of acquisition of the property group of HK$285,363,000, the issue of new shares and additional shares from conversion of the convertible loan notes of HK$2,818,110,000 during the year ended 31 December 2005 and 2007, after deducting the costs of issuing the new shares.

33. Issued equity (Continued)

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

	Number of shares *(in thousand)*	Nominal value *HK$'000*
Ordinary shares		
Authorised:		
Ordinary shares of HK$0.10 each at 1 January 2006 and 31 December 2006 and 2007	80,000,000	8,000,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1 January 2006 and 31 December 2006	5,807,950	580,795
Issue of shares upon conversion of convertible loan notes *(Note i)*	2,674	267
Issue of new shares *(Note ii)*	400,000	40,000
Ordinary shares of HK$0.10 each at 31 December 2007	6,210,624	621,062

	Number of shares	Nominal value *HK$'000*
Preference shares		
Authorised:		
Preference shares of HK$1,000,000 each	316	316,000

No preference shares are issued at 31 December 2006 and at 31 December 2007.

Notes:

(i) During the year, the convertible loan notes holders converted amount of HK$10,000,000 face value bonds into ordinary shares.

(ii) On 10 July 2007, the Company issued 400,000,000 new ordinary shares at HK$5.90 each to independent third parties, deriving net proceeds of approximately HK$2,322,028,000.

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34. Share-based payment transactions

Equity-settled share option scheme

The share option scheme adopted by the Company on 26 August 2002 ("Old Share Option Scheme") was terminated on 28 June 2007.

The Old 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. Under Old 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.

A new share option scheme ("New Share Option Scheme") was adopted pursuant to a resolution passed on 28 June 2007. The scope of participants under the New Share Option Scheme is narrower than that under the Old Share Option Scheme so that it only encompasses employees, proposed employees, directors (but excluding independent non-executive directors) of the Group and the invested entities. Independent non-executive directors, suppliers, customers, consultants, advisers and shareholders of the Group and the invested entities are not included in the scope of participants under the New Share Option Scheme. The New Share Option Scheme also expressly provides that, the Board may, with respect to each grant of options, determine the subscription price (being not less than the minimum price specified in the Listing Rules), the vesting schedule (including any minimum holding period) and any performance targets that apply to the options.

At 31 December 2007, the number of shares in respect of which options had been granted and remained outstanding was 37,145,000 (2006: 28,445,000), representing 0.60% (2006: 0.49%) 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 572,228,672. 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 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 or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

34. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

HK$1 is payable on acceptance of an option. For the options granted on 23 January 2006, 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 of HK$1.672 per share 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 ordinary share of the Company.

For the options granted on 28 August 2007, the options may be exercised to the following extent: (i) 33.3% of the total number of shares to which the grantees are entitled under the option shall become exercisable from 28 August 2009 and (ii) a further 16.7% of the total number of shares to which the grantees are entitled under the option shall become exercisable from 28 August 2010. In the event that the total accumulated basic earnings per share for the financial years ending 31 December 2007, 31 December 2008 and 31 December 2009 is more than 67.40 Hong Kong Cents, (being more than 20% growth on average in the basic earnings per share for the three years ending 31 December 2009), (i) a further 25% of the total number of shares to which the grantees are entitled under the option shall become exercisable from 28 August 2010 and (ii) the remaining 25% of the total number of shares to which the grantees are entitled under the option shall become exercisable from 28 August 2011. In the event that the total accumulated basic earnings per share for the financial years ending 31 December 2007, 31 December 2008 and 31 December 2009 is 67.40 Hong Kong Cents or less, 50% of the total number of shares to which the grantees are entitled under the option shall be lapsed on 28 August 2010. All options remaining unexercised on 28 August 2013 shall automatically lapse. The exercise price of HK$4.99 per share, being not lower than the highest of (i) the closing price of the Company's ordinary shares as quoted on the Stock Exchange as at the date hereof; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange for the five consecutive trading days preceding the date of the meeting, i.e., from 21 August 2007 to 27 August 2007 inclusive; and (iii) the nominal value of the ordinary share of the Company.

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34. 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	Exercisable period	Exercise price *(HK$)*	Number of options
Mr. LIU De Shu *(Note 1)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	2,033,000
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. SONG Yu Qing *(Note 1)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. DU Ke Ping *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	5,213,000
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. CHEN Guo Gang *(Note 1)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. Harry YANG *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. Wade Fetzer III *(Note 1)*	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Employees	23 January 2006	23 January 2008 to 22 January 2012	1.672	16,453,000
	28 August 2007	28 August 2009 to 27 August 2013	4.990	6,672,000
				37,145,000

Notes:

(1) Non-Executive Director of the Company.

(2) Executive Director of the Company.

34. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price
2006	23 January 2006	23 January 2008 to 22 January 2012	HK$1.672
2007	28 August 2007	28 August 2009 to 27 August 2013	HK$4.990

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

	Outstanding at 1/1/07	**Granted during the year**	**Forfeited during the year**	**Outstanding at 31/12/07**
2007	**28,445,000**	**8,700,000**	**–**	**37,145,000**
Exercisable at the end of the year	**–**	**–**	**–**	**–**
Weighted average exercise price	**HK$1.672**	**HK$4.990**	**–**	**HK$2.449**

	Outstanding at 1/1/06	Granted during the year	Forfeited during the year	Outstanding at 31/12/06
2006	–	30,010,000	(1,565,000)	28,445,000
Exercisable at the end of the year	–	–	–	–
Weighted average exercise price	–	HK$1.672	HK$1.672	HK$1.672

During the year ended 31 December 2007, options were granted on 28 August 2007. The estimated fair values of the options granted are approximately HK$16,269,000.

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34. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

These fair values were calculated using the Black-Scholes-Merton stock option pricing model. The inputs into the model were as follows:

	2007
Weighted average share price	HK$4.990
Exercise price	HK$4.990
Expected volatility	40.26%
Expected life	4 to 5 years
Risk-free rate *(Note 1)*	4.128% to 4.199%
Expected dividend yield	0.53%

Note 1: Risk free rates of 4.161% is used in the computation of the fair value of options exercisable in two years to four years, respectively.

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

The Group recognised the total expense of approximately HK$6,702,000 for the year ended 31 December 2007 (2006: HK$5,421,000) in relation to share options granted by the Company.

35. Contingent liabilities

At 31 December 2007, the Group had no material contingent liabilities (2006: Nil).

36. Commitments

	2007	2006
	HK$'000	*HK$'000*
Assets under construction		
Contracted but not provided for	**505,126**	187,404
Authorised but not contracted for	**473,292**	21,655
	978,418	209,059
Investment in a jointly controlled entity:		
Yunnan Three-Circles Sinochem Fertilizer Company Limited	**–**	139,345
Acquisition of equity interest in Qinghai Salf Lake Potash Co., Ltd., Shandong Sinochem Fertilizer Co., Ltd. and Tianji Sinochem Gaoping Chemical Engineering Co., Ltd.	**5,236,096**	–
	6,214,514	348,404

37. 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:

	2007 HK$'000	2006 HK$'000
Within one year	**621**	651
In the second to fifth years	**403**	55
	1,024	706

The Group as lessee

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights which give the Group a priority in renewing the operating lease agreements.

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

	2007 HK$'000	2006 HK$'000
Within one year	**34,425**	15,132
In the second to fifth years	**28,514**	7,488
Other five years	**–**	6,741
	62,939	29,361

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38. 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

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)

Beijing Chemsunny Property Company Limited ("Chemsunny Ltd")
(北京凱晨置業有限公司)

Jointly controlled entities

Hubei Sinochem & Orient Fertilizer Company Limited ("Sinochem Orient")
(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)

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

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)

An associate of a substantial shareholder of the Company

Canpotex International Pte. Limited ("Canpotex Ltd")

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

38. 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:

	2007	2006
	HK$'000	*HK$'000*
Sales of fertilisers to		
Sinochem Corporation	**1,188,910**	1,598,714
Sinochem Orient	**35,670**	11,912
Sinochem Shandong	**274,002**	63,543
Purchases of fertilisers from		
Sinochem Corporation	**265,819**	594,832
Sinochem Shandong	**628,367**	427,557
Sinochem Orient	**32,876**	39,965
Sinochem Kailin	**246,117**	141,351
Sinochem Cargill	**306,373**	475,582
Qinghai Salt Lake	**1,129,092**	849,277
Beijing Sinochem Tianji Trading Co., Ltd.	**586,279**	92,509
Import service fee		
Sinochem Corporation	**476**	268
Sinochem (United Kingdom) Limited	**10,618**	13,756

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

38. Related party transactions (Continued)

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

	2007	2006
	HK$'000	*HK$'000*
Trade receivables		
Sinochem Shandong	**4,502**	–
Advance payments to suppliers		
Sinochem Cargill	**36,811**	15,525
Sinochem Kailin	**24,899**	16,614
Qinghai Salt Lake	**11,175**	133,672
Sinochem Orient	**5,433**	8,479
Beijing Sinochem Tianji Trading Co., Ltd.	**32,192**	71,862
Sinochem Shandong	**24,913**	–
Three-Circles Sinochem	**44,402**	–
Guizhou Kailin	**15,388**	–
Other receivables		
Canpotex Ltd	**40,917**	18,285
Chemsunny Ltd	**7,284**	–
Trade payables		
Sinochem Shandong	**–**	25,331
Canpotex Ltd	**859,153**	781,532
Receipts in advance		
Sinochem Shandong	**19,665**	3,760
Other payables		
Sinochem (United Kingdom) Limited	**1,974**	–

The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in notes 11 and 12. The remuneration is determined by the remuneration committee having regard to the performance of individuals and market trends.

38. Related party transactions (Continued)

(c) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under Sinochem Corporation which is controlled by the PRC government. Apart from the transactions with Sinochem Corporation and fellow subsidiaries and other related parties disclosed above, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

At the balance sheet date, the Group had the following significant balances with other state-controlled entities in the PRC:

	2007 ***HK$'000***	2006 *HK$'000*
Trade and bills receivables	**1,182,818**	639,588
Advance payments and other receivables	**79,186**	55,121
Trade and bills payables	**75,869**	157,634
Receipts in advance and other payables	**120,018**	46,872

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

	2007 ***HK$'000***	2006 *HK$'000*
Sales of fertilizers	**3,960,591**	2,171,816
Purchase of fertilizers	**3,655,518**	5,438,395

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

39. Principal subsidiaries

Particulars of the principal subsidiaries of the Group as at 31 December 2007 and 2006:

Name of subsidiaries	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership of 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) *(Note 1)*	PRC	RMB4,516,000,000	100%	Fertilizer trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	HK$15,000,000	100%	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務有限公司)	Macao	MOP100,000	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Company Limited (綏芬河新凱源貿易有限公司) *(Note 3)*	PRC	RMB5,000,000	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited (福建中化智勝化肥有限公司) *(Note 3)*	PRC	RMB47,000,000	53.19%	Sales and manufacturing of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Company Limited (中化重慶涪陵化工有限公司) *(Note 3)*	PRC	RMB80,000,000	60%	Sales and manufacturing of fertilizers

39. Principal subsidiaries (Continued)

Name of subsidiaries	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership of interest held by the Company	Principal activities
Indirectly held: (Continued)				
Sinochem Yantai Crop Nutrition Co., Ltd (煙台中化作物營養有限公司) *(Note 2)*	PRC	US$241,000	51%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Company Limited (滿洲里凱明化肥有限公司) *(Note 3)*	PRC	RMB5,000,000	100%	Fertilizer trading
Guizhou Kaiyang Qinglongjiang Company Limited (貴州開陽青龍江有限公司) *(Note 3)*	PRC	RMB500,000	60%	Phosphate mining

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Note 1: Company with foreign investment

Note 2: Sino-foreign enterprise

Note 3: Domestic company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2007

40. Principal jointly controlled entities

Particulars of the principal subsidiaries of the Group as at 31 December 2007 and 2006:

Name of jointly controlled entities	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership of 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%	Fertilizer 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 fertilizers
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 fertilizers
Yunnan Three-Circles Sinochem Fertilizer Company Limited (雲南三環中化化肥有限公司)	PRC	RMB600,000,000 (2006: RMB250,000,000)	40% (2006: 40%)	Sales and manufacturing of fertilizers
Beijing Sinochem Tianji Trading Co., Ltd. (北京中化天脊貿易有限公司)	PRC	RMB5,000,000	60%	Fertilizer trading
Gansu Wengfu Chemical Co., Ltd. (甘肅甕福化工有限責任公司) (acquired in 2007)	PRC	RMB75,000,000	30%	Sales and manufacturing of fertilizers

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors, result in particulars of excessive length.

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

41. Retirement benefits scheme contribution

According to the relevant laws and regulations in the PRC, the Company's certain subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Company's certain subsidiaries' contribution to fund the retirement benefits of the employees are calculated based on certain percentage of the average employee salary as agreed by local municipal government to the scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contribution under the scheme.

42. Post balance sheet event

On 7 January 2008, the Company has issued and allotted approximately 714,285,000 shares at price of HK$7.00 per share to Sinochem Hong Kong (Group) Co., Ltd and PCS (Barbados) Investment Co., Ltd. The total number of shares outstanding has increased to approximately 6,924,909,000 as a result of this allotment.

On 30 January 2008, the Group completed its acquisition of 40% equity interest in Tianji Sinochem Gaoping Chemical Engineering Co., Ltd. ("Tianji JV") for consideration of approximately RMB208,830,000 in cash using available cash of the Group.

On 17 March 2008, the Group completed its acquisition of 18.49% equity interest in Qinghai Salt Lake Potash Co., Ltd. ("Qinghai Salt Lake") for consideration of approximately RMB6,739,190,000 in cash using available cash of the Group.

Five Year Financial Summary

Consolidated Results

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**29,436,834**	21,126,571	19,248,665	11,857,185	9,750,373
Profit before taxation	**1,010,247**	1,003,973	929,957	668,065	491,779
Taxation	**(324,777)**	(99,191)	(137,533)	(141,254)	(99,014)
Profit for the year	**685,470**	904,782	792,424	526,811	392,765
Attributable to					
Equity shareholders of the Company	**663,306**	896,246	779,421	510,824	390,943
Minority interests	**22,164**	8,536	13,003	15,987	1,822
	685,470	904,782	792,424	526,811	392,765

Consolidated Balance Sheet

	At 31 December				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**18,307,033**	10,509,075	9,275,335	6,826,564	4,233,883
Total liabilities	**(10,086,845)**	(5,965,104)	(5,614,622)	(4,770,262)	(3,082,130)
	8,220,188	4,543,971	3,660,713	2,056,302	1,151,753

Note: The historical figures represent financial information of Fertilizer Group for the period from 2003 to 2004 and the Group for 2005 to 2007.

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