中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

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

Annual Report 2009

NURTURING CHINA'S AGRICULTURE SECTOR

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Company Profile and Corporate Information

Company Profile

Sinofert Holdings Limited (the "Company") successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries 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 2009, the Group is:

- The largest fertilizer distributor in China,
- The largest supplier of imported fertilizers in China, and
- One of the largest fertilizer manufacturers 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 commit to social responsibilities.

The ultimate controlling shareholder of the Company is Sinochem Group, which is one of China's earliest qualifiers of Fortune Global 500 and was selected for the 19th times, ranking the 170th in 2009. The second largest shareholder of the Company is Potash Corporation of Saskatchewan Inc., which is the largest potash producer in the world.

Company Profile and Corporate Information

Corporate Information

Board of Directors

Non-Executive Director

Mr. LIU De Shu *(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. TANG Tin Sek
Mr. TSE Hau Yin, Aloysius

Members of Committees

Audit Committee

Mr. TSE Hau Yin, Aloysius *(Chairman)*
Mr. KO Ming Tung, Edward
Dr. TANG Tin Sek

Remuneration Committee

Dr. TANG Tin Sek *(Chairman)*
Mr. KO Ming Tung, Edward
Dr. Stephen Francis DOWDLE
Mr. TSE Hau Yin, Aloysius

Nomination Committee

Mr. KO Ming Tung, Edward *(Chairman)*
Dr. Stephen Francis DOWDLE
Dr. TANG Tin Sek
Mr. TSE Hau Yin, Aloysius

Chief Financial Officer

Mr. CHEN Feng

Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

Company Secretary

Mr. Navin AGGARWAL

Auditors

Deloitte Touche Tohmatsu

Legal Advisers

Latham & Watkins
K&L Gates

Principal Bankers

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

Units 4601-4610, 46th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai
Hong Kong

Company Profile and Corporate Information

Share Registrars and Transfer Offices

Bermuda (Principal office)

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong (Branch)

Tricor Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai
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Company Website

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Share Listing

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

Investor Relations

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PRC

Financial Highlights

Financial Highlights

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

	2009	2008
Sales volume *(in 10,000 tons)*	**1,523**	1,622
Revenue	**27,010,709**	45,392,885
Gross (loss) profit	**(562,749)**	3,401,370
(Loss) profit before tax	**(2,149,096)**	2,084,237
(Loss) profit attributable to shareholders of the Company *(Note 1)*	**(1,443,813)**	1,912,555
(Loss) earnings per share (RMB)	**(0.2059)**	0.2739
Return on Equity	**(11.88%)**	13.71%
Debt to Equity Ratio *(Note 2)*	**48.82%**	57.89%

Note 1: Excluding the change in the fair value of derivative component of the convertible loan notes, net loss attributable to shareholders of the Company for the years ended 31 December 2009 and 2008 was RMB1,494 million and RMB1,749 million respectively.

Note 2: Calculated on the basis of interest-bearing debt divided by total equity as at the end of the reporting period (interest-bearing debt does not include discounted and not yet matured bills payables).


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Chairman's Statement

Dear Shareholders,

Hereby I present to the shareholders the annual results of Sinofert Holdings Limited and its subsidiaries for the year ended 31 December 2009.

The year 2009 witnessed a sharp fall in global fertilizer demand due to the impact of the financial crisis. Being the world's largest fertilizer producing country, China was confronted with a situation of severe oversupply, extremely intense market competition and continuously falling fertilizer prices. Against such challenges and difficulties, the Group responded in a calm manner and steadfastly pushed forward the strategy of "centering on marketing and distribution and expanding into both production and network distribution" for integrated development. Sales volume for the year was 15.23 million tons, falling by 6.07% from that in 2008; turnover was RMB27,011 million, down by 40.50%; loss attributable to shareholders of the Company was RMB1,444 million; and basic loss per share was RMB0.2059. This was the first time the Group's financial performance declined after ten years of consecutive growth, which was mainly caused by sales of high-cost potash inventories imported in the previous year and write-down of inventories.

In 2009 the Group experienced a downturn in financial performance, but it still maintained the leading status as the largest fertilizer distributor and service provider in China. The industrial base and the extensive distribution network shaped during the Group's strategic transformation over the past ten years had become important assets of the Group. Our distribution network, in particular, had increasingly demonstrated its strategic value in the background of substantial oversupply and all the market players rivaling each other for distribution powers. The Group's abilities in deploying resources globally and its brand image influence still maintain a cutting edge in market competition. The Directors, the management and all the employees are fully confident in the Group's future growth prospect.

In 2009 the Group grasped the opportunities arising from the crisis and basically formed an expert management team for the production enterprises by proactively recruiting specialists and talents to optimize the human resources structure. Meanwhile, good results were achieved in implementing the low cost strategy through technological innovations and lean management. The overall operations level of the Group's production enterprises fared better than the industry average.

Following the completion of the distribution network, in 2009 the Group shifted its focus onto improving the quality and operations of the distribution network in its network development strategy. By optimizing standardized management, enhancing service abilities for the end-user customers and pushing forward "one-stop shopping" services with enriched product mix, the integrated value of the distribution network was significantly enhanced.

In 2009 the Group adopted the guideline of "being prudent in operations, quick-buy-and-quick-sell and always aware of risk control" to deal with the crisis and challenges. By reducing inventory level and emphasizing on cashflow management, the overall asset quality and operations efficiency of the Group was improved substantially, laying a solid foundation for further growth in the future.

Chairman's Statement

Working to maximize shareholders' value, the Board has continuously improved corporate governance to bring into place a highly effective, standardized and rational governance mechanism for overcoming the financial crisis. In compliance with the Code on Corporate Governance Practices as required by The Stock Exchange of Hong Kong Limited, the Company held four regular meetings of the Board in 2009, at which the Directors fulfilled their obligations, including reviewing and approving the annual report, interim report, corporate development strategy and other important issues.

Looking forward into 2010 and the "post-crisis" era, we see favourable prospects for the future development of the Group. The Chinese economy has been out of the crisis and taking the lead in global recovery with an annual GDP growth of more than 8% in 2009; and meanwhile the overall global economy was recovering gradually.

Agriculture in China is positioned to be "the strategic industry effecting stability of the country and the people". In recent years Chinese government input "in the agricultural sector, in the rural areas and for the farmers" has been constantly increased. The 2010 No. 1 Document issued by the Central Government made it clear for the first time that input "in the agricultural sector, in the rural areas and for the farmers" will keep expanding steadily in both total volume and proportion. Such favourable policies have helped greatly in achieving successive bumper harvests and constant increase of farmers' income. In particular, this year the Chinese government will initiate in full scale the "50-Billion-Kg Grain Production Capacity Expansion Program" and other related plans, which would create potentials for the development of the fertilizer industry. We believe that in the next couple of years, China's fertilizer consumption will overcome the downtrend in the previous two years and back to growth. In addition, the situation of overcapacity and the trend of structural readjustment and reorganization of the Chinese fertilizer industry will also provide good opportunities for the Group to further consolidate its industrial base.

In 2010, the Group will grasp the opportunities by further deepening the development strategy of "centering on marketing and distribution and expanding into both production and network distribution". We will continue to consolidate our industrial base and enhance the cost competitiveness of our products; take advantage of the distribution network to expand integrated operations of various agricultural inputs, and explore into new models for the development of distribution network so as to get better prepared for sustainable growth for the Group at higher strategic command heights. We will also bring into full play the advantages of integrated development, continuously increase our market share and consolidate our leading market position. The Group will spare no effort in fulfilling our business goals for 2010, and is always committed to creating value for the shareholders and wealth for society, hence playing a greater role in ensuring China's food security and agricultural development.

Last but not the least, on behalf of the Board, I would like to take this opportunity to extend our heartfelt appreciations to the customers, the management and employees of the Group. We hope to have your continuous support, and that the Sinofert Team will keep working hard to completely shake off the shadows of the financial crisis with steadfast willingness and in highly motivated spirit.

Liu De Shu
Chairman of the Board

Hong Kong, 18 March 2010

Management Review and Prospect

In 2009 global fertilizer consumption was dampened by the international financial crisis and the downturn in the prices of agricultural products substantially affecting the demand for fertilizers. The overall fertilizer market was weak and sluggish.

The year of 2009 also saw an oversupply situation getting from bad to worse in the Chinese fertilizer market as production capacity continued to expand rapidly. According to statistics, China's annual fertilizer output reached 67.06 million tons (converted to 100% nutrients), up by 16% over the previous year. The output of nitrogen, phosphate and potash fertilizers increased by 14%, 22% and 24%, respectively. Restricted by high export tax and a relatively weak international market, China's exports of nitrogen and phosphate fertilizers fell sharply, making the oversupply situation more severe in the domestic market. Statistics also show that China's annual production capacity of nitrogen and phosphate fertilizers was 20% and 50% more than actual consumption, respectively. The potash market was also oversupplied because of increased domestic production capacity and a considerable amount of imported potash inventory carried over from the previous year. Consequently, nitrogen, phosphate and potash prices plummeted with the biggest fall from the peak in 2008 to the bottom over 42%, 53% and 50%, respectively.

Under the leadership of the Board of Directors, the Group readjusted its strategies and took proactive measures to deal with various adversities. The Group adhered to the strategy of "centering on marketing and distribution and expanding into both production and network distribution", and endeavoured to bring into full play the advantages of our integrated business model allowing production and distribution as well as domestic supply and international trading mutually supportive for better synergic effect. The overall risk management ability of the Company has been strengthened. Aiming at "promoting sales, empowering brand name and creating value," the marketing abilities of the distribution network were strengthened with a broader and more solid customer base. In addition, the Group was able to balance its financing structure and minimize finance cost and risks by utilizing its integrated financing resources both at home and abroad, which had not only satisfied the capital need but also reduced finance risks of the Group. All this has laid a good foundation for the future growth of the Company.

Financial Highlights

For the year ended 31 December 2009, the Group's turnover reached RMB27,011 million, falling by 40.50%; and loss attributable to shareholders of the Company reached RMB1,444 million. Under the background of the global financial crisis and a market downturn, the Group's annual results plummeted due to losses caused by sales of high-cost potash imported in 2008 and the write-down of inventories. This was the first time the Group's financial performance declined after ten years of continuous growth.

Management Review and Prospect

Product Operations

In 2009 the Group adopted the guideline of "being prudent in operations, quick-buy-and-quick-sell and always aware of risk control" to overcome the adversities caused by sluggish demand in the global fertilizer market, especially the sharp fall in potash demand. The Group brought into full play its advantages of integrated business model, and endeavoured to broaden its customer base by strengthening marketing services. Sales volume for the year was 15.23 million tons, falling by 6.07% from that in 2008. However, we still maintained the leading position as the largest fertilizer distributor and service provider in China.

For the year ended 31 December 2009, the sales volume of nitrogen fertilizers rose to 6.19 million tons, up by 3.15% year on year; the sales volume of phosphate fertilizers increased to 3.69 million tons, up by 25.63% year on year; while the sales volume of compound fertilizers fell by 18.90% year on year to 2.06 million tons. Nonetheless, the Group was still a forerunner in China's high-end compound fertilizer market. The sales volume of potash fertilizers decreased by 41.36% year on year to 2.36 million tons, which was mainly caused by dramatically shrinking demand for potash as high prices dampened consumption and operating capacities of compound fertilizer plants were restricted at a very low level. Despite a sharp fall in potash sales, the Group still maintained the largest market share in the Chinese potash market. The sales volume of sulphur was basically the same as the previous year at 0.65 million tons. The Group initiated the cooperation with Shell on sulphur supply, laying a good foundation for further growth of the sulphur business. Pesticides were mainly marketed through the distribution network, focusing on pesticide distributors at the grass-roots level with farm operators and grain-growers as supplementary customers. Pesticide marketing abilities of the distribution network were steadily boosted.

Production

In 2009, the Group had no newly built project or new acquisition. Total fertilizer production capacity of the Group increased to 10.34 million tons through rebuilding or expansion of existing production facilities at subsidiaries and joint ventures. Meanwhile, the Group focused on the implementation of the low cost strategy for sustainable growth by carrying out lean management and technological innovations.

The Group grasped opportunities arising from the crisis and proactively recruited specialists and talents to consolidate the professional management of the production sector in terms of technological development, processing and equipment and corporate management. Enhancing competitiveness through technological innovations, Sinochem Chongqing Fuling Chemical Fertilizer Company Limited ("Sinochem Fuling") gained profits from technological transfer and expedited the building of a state-level technological center. With the full implementation of lean management, the Group's production enterprises were capable of further reducing energy consumption and maintaining safe production. Despite the challenging market environment, the overall operations level of the Group's production subsidiaries fared better than the industry average.

Network Distribution

Following the completion of the distribution network layout in major agricultural counties, from 2009 onwards the Group shifted its focus onto improving the quality and operations of the distribution network in its network development strategy. During the year, 26 distribution centers were newly built, bringing the total number to 2,036 nationwide.

Management Review and Prospect

During 2009 the distribution network gave top priority on "expanding customer base at township level and continuously substantiating the basis of operations" in its work. The number of trading customers expanded by 11,000 new customers to over 40,000, with a continuous increase in the ratio of customers at the village and township level. The sales volume of the distribution network was 11.31 million tons, accounting for 74.24% of the Group's total sales volume. The proportion of network sales continued to rise, proving that the distribution network has been playing an increasingly important role.

The Group actively pushed forward the integrated operations of various agricultural inputs, and achieved steady progress in promoting "one-stop shopping" services with enriched product mix covering fertilizers and pesticides. Our integrated business model proved to be more and more competitive, and the distribution and service platform with Sinofert characteristics was further strengthened.

Internal Control and Management

Confronted with severe challenges, the Group paid ever greater attention to the security of shareholders' assets. The Group adhered to a sound financial policy, actively expanded financing channels and maintained a balanced financing structure in meeting the capital requirements for the Group's development. We also fully utilized the financing resources both at home and abroad and adjusted our financing strategies in a timely manner to effectively reduce finance risks. By implementing total risk management and focusing on goods ownership management and continuously improving work flows and internal audit procedures, the Group ensured the security of corporate assets and operation safety. At the same time, through a series of effective measures, the cashflow, inventory structure and asset structure of the Group was optimized. The asset quality and operation efficiency of the Group was improved substantially, laying a good foundation for growth in the future.

Corporate Social Responsibility

The Group always proactively undertakes its social responsibilities. We are committed to promoting "Harmonious China, Safe Agriculture" and "whole-heartedly serving the Chinese farmers", and take it a long-term strategy to provide full services to meet the needs of end-user farming households. In 2009, a total of over 4,800 agrichemical service events were held, including expert lectures and seminars, town fair gatherings and promotions for formula fertilization based on soil testing, which had directly benefited more than 50 million farmers. A total of 1,108 exemplary villages selected for the promotion of scientific fertilization by Sinofert were set up, with 1,366 specialized programs provided for the villagers. We also actively participated in the agro-technology promotion program under the sponsorship of the Ministry of Agriculture, undertaking the work of building 1,000 exemplary villages and 1,000 demonstration bases for agro-technology promotion in 280 counties throughout the country. The Group also organized a nationwide campaign for the promotion of Sinofert Canadian potash, and provided quality fertilizers and agricultural technologies to the earthquake-stricken areas in Sichuan and Shaanxi so as to support the reconstruction of these areas.

Management Review and Prospect

The Company successfully sponsored the 77th Annual Conference of the International Fertilizer Industry Association (IFA) held in Shanghai in 2009, at which people in the global fertilizer industry exchanged views and the international fertilizer producers and suppliers gained a better understanding of the Chinese fertilizer industry. In addition, the Group also successfully fulfilled the mission of undertaking the national off-season reserve of 2.55 million tons of fertilizers, which helped to ensure market supply and stabilize prices.

Outlook

In 2009, the Chinese economy overcame the difficulties caused by the international financial crisis, and recovered with an annual GDP growth of 8.7%. Meanwhile, the overall global economy was recovering gradually. During the year, the Chinese agricultural output and the farmers' income both maintained a good growth momentum thanks to the support of preferential policies towards the agricultural sector.

The 2010 No. 1 Document issued by the Central Government made it clear for the first time that input "in the agricultural sector, in the rural areas and for the farmers" will keep expanding steadily in both total volume and proportion. The central government will spend a total of RMB818.3 billion in this aspect, which represents an increase of 13%, or RMB93 billion over the previous year. This year the government will continue to increase the minimum grain purchase prices. In particular, the Chinese government will initiate in full scale the "50-Billion-Kg Grain Production Capacity Expansion Program for 2009-2020" to enhance annual grain output no less than 500 billion kg. We believe that in the next couple of years, China's fertilizer consumption will regain recovery growth. All these favourable conditions will create huge demand potentials for the fertilizer industry.

In view of the industry, the situation of overcapacity and the trend of restructuring and reorganization of the Chinese fertilizer industry will also provide good opportunities for the Group to further consolidate its comprehensive strength and enhance its capacity in continuous growth.

In 2009 the performance of the Group took a severe downturn, but the fundamentals for the Group's development remain intact, and our entrepreneurship in pursuit of excellence has never changed. The Group will grasp its opportunities by further carrying out the development strategy of "centering on marketing and distribution and expanding into both production and network distribution", continuing to consolidate the Group's industrial base and enhancing its competitiveness. We will take advantage of the distribution network to expand integrated operations of various agricultural inputs, and enhance the value of the distribution network. We will also make use of the synergy of integrated development, continuously enlarge our market share and consolidate our leading market position. The Group will spare no effort in fulfilling the business goals for 2010, and is always committed to creating value for the shareholders and wealth for society, hence playing a greater role in ensuring China's food security and agricultural development.

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Management's Discussion and Analysis

For the year ended 31 December 2009, sales volume of the Group reached 15.23 million tons, and turnover was RMB27,011 million, representing a decrease of 6.07% and 40.50%, respectively, over the corresponding period of 2008.

For the year ended 31 December 2009, gross loss of the Group reached RMB563 million, representing a decrease of 116.54% as compared with the year ended 31 December 2008 and loss attributable to shareholders of the Company was RMB1,444 million. Excluding the change in fair value of derivative component of the convertible loan notes, loss attributable to shareholders of the Company would be RMB1,494 million, representing a decrease of 185.37% as compared with the corresponding period in 2008.

I. Operation Scale

1. Sales Volume

For the year ended 31 December 2009, sales volume of the Group reached 15.23 million tons, down by 6.07% over the corresponding period of 2008. Due to the decrease in the import volume of potash fertilizer in 2009, the sales volume of imported fertilizers fell by 32.60% year on year to 2.81 million tons in 2009. The sales volume of domestic fertilizers was 11.49 million tons, up by 1.39% year on year.

Management's Discussion and Analysis

In terms of product composition, due to a sharp fall in domestic demand for potash, sales volume of potash fell by 41.36% year on year; and sales volume of compound fertilizers decreased by 18.90% compared to the same period of 2008 due to the market downturn in 2009. Thanks to product supply from share-controlling plants of the Group and the building of core supplier system, the advantage of integrated operation of the nitrogen business was becoming ever more apparent, with a year-on-year increase of 3.15% in nitrogen sales volume. With an obvious increase in demand for phosphate in 2009, particularly high-concentration phosphate, the Company seized the market opportunities and took various measures to increase sales. As a result, the sales volume of phosphate was up by 25.63% compared to the same period of 2008 and high-concentration phosphate had become one of the competitive products of the Group.

2. Turnover

For the year ended 31 December 2009, turnover of the Group was RMB27,011 million, down by RMB18,382 million over the corresponding period of 2008, which represented a decrease of 40.50%. This decrease in turnover was much bigger than the fall of 6.07% in sales volume, which was attributable to falling prices in 2009. The Group's average selling price was 36.65% lower compared with the same period of 2008.

Table 1:

	For the twelve months ended 31 December			
	2009		2008	
	Turnover	**As percentage of total turnover**	Turnover	As percentage of total turnover
	RMB'000		*RMB'000*	
Potash fertilizers	**6,750,208**	**24.99%**	16,124,676	35.52%
Nitrogen fertilizers	**8,254,933**	**30.56%**	10,727,916	23.63%
Compound fertilizers	**4,716,023**	**17.46%**	7,557,203	16.65%
Phosphate fertilizers	**6,511,440**	**24.11%**	8,565,045	18.87%
Others	**778,105**	**2.88%**	2,418,045	5.33%
Total	**27,010,709**	**100.00%**	45,392,885	100.00%

Management's Discussion and Analysis

3. Turnover and Result by Segment

The operating segments of the Group consist of sourcing and distribution of fertilizers and agricultural related products ("Sourcing and Distribution Segment") and production and sales of fertilizers ("Production Segment").

The following is an analysis of the Group's turnover and (loss) profit by operating segment for the year ended 31 December 2009 and 2008:

Table 2:

2009	**Sourcing & Distribution** *RMB'000*	**Production** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
Turnover				
External sales	**24,118,030**	**2,892,679**	**–**	**27,010,709**
Inter-segment sales	**254,580**	**3,144,899**	**(3,399,479)**	**–**
Total	**24,372,610**	**6,037,578**	**(3,399,479)**	**27,010,709**
Segment loss	**(2,536,643)**	**(31,704)**		**(2,568,347)**

2008	Sourcing & Distribution *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Turnover				
External sales	42,021,100	3,371,785	–	45,392,885
Inter-segment sales	14,231,582	2,754,886	(16,986,468)	–
Total	56,252,682	6,126,671	(16,986,468)	45,392,885
Segment profit (loss)	1,900,861	(241,117)		1,659,744

Segment (loss) profit represents the (loss) profit earned by each segment without unallocated expenses and incomes, share of results of associates and jointly controlled entities, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Management's Discussion and Analysis

Impacted by the financial crisis, both demand and prices for fertilizer in the domestic market plunged. This resulted in a sharp fall in the Group's results for the year ended 31 December 2009 compared with the same period of 2008. Among this, the Sourcing and Distribution Segment recorded a loss of RMB2,537 million for the year ended 31 December 2009, down by RMB4,438 million from the same period of 2008. The loss was mainly attributable to the decline in fertilizer prices as a result of the downturn in the domestic market and high cost of imported potash inventories. The loss of the Production Segment decreased by RMB209 million from the same period of 2008. This was mainly because nitrogen production enterprises kept a high operating rate in 2009 to reduce the overall production cost as compared to 2008, and meanwhile, in the second half of 2009, there was a minor increase in the selling price of domestic fertilizers, which helped to reduce the loss of the Production Segment.

II. Profit

1. Gross loss

For the year ended 31 December 2009, gross loss of the Group was RMB563 million, representing a decrease of RMB3,964 million or 116.54% year on year.

The Group adopted different strategies for different products. As a result of high cost potash inventories carried over from 2008 and a plunge in fertilizer prices in the domestic market in 2009, the Group's potash profitability suffered a great loss. This was the major reason for the substantial decrease in gross profit of the Group. Since its public listing, the Group has always adhered to the development strategy of "centering on marketing and distribution and expanding into both production and network distribution", and such a strategy has achieved a desirable effect in the downturn of the fertilizer market in 2009. By relying on the sufficient cost-competitive products supplied by share-controlling production enterprises and marketing across China through large distribution network, the profitability of nitrogen, phosphate and compound fertilizers remained stable.

In summary, except for the potash business, profitability of the Group's other types of fertilizers remained stable with one or two varieties giving much improved margins.

2. Share of results of jointly controlled entities, share of results of associates

Share of results of jointly controlled entities: For the year ended 31 December 2009, the share of results of jointly controlled entities of the Group was a loss of RMB58 million, which was mainly from the production enterprises such as Yuannan Three Circle-Sinochem Fertilizer Co., Ltd,. There was a decrease of RMB76 million from a profit of RMB18 million for the year ended 31 December 2008, or a decrease of 414.26%. The major reason was the high production cost of phosphate fertilizers due to their high cost inventories in early 2009. Meanwhile, phosphate production enterprises realized less profit or even recorded a loss in 2009 because of a sluggish market. Consequently, the profit contributed by the production enterprises to the Group for the year shrank.

Management's Discussion and Analysis

Share of results of associates: For the year ended 31 December 2009, the share of results of associates of the Group amounted to RMB250 million, which was mainly from Qinghai Salt Lake Potash Company Limited ("Qinghai Salt Lake").

3. Income tax credit

For the year ended 31 December 2009, income tax credit of the Group was RMB683 million, which was mainly due to recognition of deferred tax assets for tax losses carryforward recorded at certain subsidiaries within the Group.

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 25%, the Group's profit derived from Macao is exempted from profits tax, while Hong Kong profits tax rate is 16.5%. The Group strictly complies with the taxation laws of the respective jurisdictions and pays taxes accordingly.

4. Profit attributable to shareholders

For the year ended 31 December 2009, loss attributable to shareholders was RMB1,444 million, which was RMB3,356 million less than profit attributable to shareholders of the Company for the same period of 2008, or a decrease of 175.49%. This was attributable to the continuous slump of the fertilizer market affected by the financial crisis.

III. Expenditures

Selling and distribution expenses: For the year ended 31 December 2009, selling and distribution expenses were RMB833 million, up by RMB145 million or 21.09% from that of RMB688 million for the corresponding period of 2008. Such an increase was mainly attributed to the increase in logistics costs, such as costs for warehousing and storage, as a result of the slowing down of inventory turnover rate.

Administrative expenses: For the year ended 31 December 2009, administrative expenses were RMB492 million, decreased by RMB53 million or 9.66% from that of RMB544 million for the corresponding period of 2008. This was mainly attributable to the Group's strict control on expenses.

Finance costs: For the year ended 31 December 2009, finance costs were RMB451 million, up by RMB157 million, or 53.08% over that of RMB295 million for the corresponding period of 2008. This was mainly attributed to higher capital demand and higher average level of debt caused by higher average inventory level.

IV. Other Expenses

For the year ended 31 December 2009, the Group's other expenses amounted to RMB825 million, which represented an increase of RMB233 million or 39.31% over that of RMB592 million for the corresponding period of 2008. The major reason is a write-down of RMB760 million relating to year-end inventories according to requirement of applicable accounting principles as a result of market downturn in 2009 impacted by the financial crisis.

V. Inventory Turnover

The inventory balance of the Group as at 31 December 2009 was RMB5,829 million, decreased by RMB5,741 million, or 49.62% from that of RMB11,570 million as at 31 December 2008. Weakening demand in the domestic fertilizer market led to a decline in sales volume, and subsequently lowered inventory turnover rate. Inventory turnover days*(note)* increased from 78 days in 2008 to 114 days in 2009.

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.

VI. Trade and Bills Receivables Turnover

The balance of the Group's trade and bills receivables as at 31 December 2009 was RMB2,776 million, up by RMB547 million from that of RMB2,229 million as at 31 December 2008. This was mainly because of the increase of bills discounted to banks.

As the 40.50% decrease in turnover from the corresponding period in 2008 was higher than the decrease percentage of the balance of the trade and bills receivables, trade and bills receivables turnover day *(note)* increased from 10 days in 2008 to 19 days in 2009.

Note: Calculated on the basis of average trade and bills receivables balance excluding bills discounted to banks as at the end of the reporting period divided by turnover, and multiplied by 360 days. (The trade and bill receivable balance excluded the bills discounted to the banks)

VII. Interests in Jointly Controlled Entities

As at 31 December 2009, the balance of the Group's interests in jointly controlled entities was RMB729 million, down by 8.06% from that of RMB793 million as at 31 December 2008. The decrease of the Group's equity interests in jointly controlled entities was mainly caused by profit decline at different levels of jointly controlled entities with some of them even recording a loss as a result of a slump in the fertilizer market in 2009.

Management's Discussion and Analysis

VIII. Interests in Associates

The balance of the Group's interests in associates as at 31 December 2009 was RMB7,064 million, which was mainly attributed to:

1. The balance of interests in Qinghai Salt Lake as at 31 December 2009 was RMB6,903 million, including RMB257 million of investment returns generated for the year ended 31 December 2009 and RMB237 million of dividends for the year 2008 received from Qinghai Salt Lake during the reported period;

2. The balance of interests in Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. ("Xinxin Industrial Company") as at 31 December 2009 was RMB145 million, including an investment loss of RMB5 million recorded for the year ended 31 December 2009 and a dividend of RMB31 million for the year 2008 received from Xinxin Industrial Company during the reporting period;

3. Sinochem Fertilizer Company Limited ("Sinochem Fertilizer"), a subsidiary of the Group, invested RMB4 million for 40% equity interest in Yara Sinochem Environmental Protection Co., Ltd. and subsequently suffered an investment loss of RMB2 million for the year ended 31 December 2009;

4. Dohigh Trading Limited, a subsidiary of the Group, increased its investment in associates during the year by RMB12 million, including an investment of RMB2 million in Qingdao Ganghua Logistics Co., Ltd. and an investment of RMB10 million in Tianjin Beihai Enterprise Co., Ltd.

IX. Available-for-sale Investments

As at 31 December 2009, the balance of the Group's available-for-sale investments was RMB177 million, while the balance as at 31 December 2008 was RMB502 million. The decrease of RMB325 million or 64.73% was mainly attributable to:

1. The Group sold shares of Luxi Chemical Industry Co., Ltd and Hualu Hengsheng Chemical Co, Ltd during 2009, thus reducing RMB382 million of available-for-sale investments;

2. An appreciation of RMB57 million as a result of the revaluation of shares in the listed companies held by the Group as at 31 December 2009, including China XLX Fertiliser Ltd. and Qinghai Salt Lake based on their fair value as at 31 December 2009.

X. Long and Short-Term Loans

As at 31 December 2009, the balance of the Group's long-term loans was RMB3,801 million, up by RMB2,818 million or 286.52% over that of RMB983 million as at 31 December 2008. This was mainly caused by RMB2,500 million corporate bonds issued by Sinochem Fertilizer, a subsidiary of the Group.

As at 31 December 2009, the balance of short-term loans was RMB3,768 million, down by RMB3,769 million as compared with that of RMB7,537 million as at 31 December 2008. This was mainly because the Group enhanced its effort in sales so as to generate an operating cash inflow to repay bank loans.

XI. Trade and Bills Payables

As at 31 December 2009, the balance of the Group's trade and bills payables was RMB2,194 million, decreased by RMB1,969 million from that of RMB4,163 million as at 31 December 2008. Among this, the decrease of the balance of trade payables as at 31 December 2009 was mainly caused by a decrease in purchase of imported potash during the reporting period; the balance of bills payables as at 31 December 2009 increased by RMB456 million over that as at 31 December 2008, which was mainly attributable to increased payments made in bills payable by the Group in order to reduce finance costs.

XII. Convertible Loan Notes

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

According to provisions of the convertible loan notes, the note holders have the right to require the Company to redeem all or in part of the notes at 115.55% of the face value on 7 August 2009. No note holders required the Company to redeem their notes on 7 August 2009. As a result, as at 31 December 2009, the total face value of outstanding convertible loan notes was approximately HK$622 million, which remained unchanged from that as at 31 December 2008.

According to relevant accounting standards, the Group arranged an independent assessment on the fair value of outstanding convertible loan notes. The gain arising from the change in fair value of derivative component of the convertible loan notes and the amortized finance costs to the convertible loan notes was RMB50 million and RMB40 million, respectively, which were reflected in the consolidated statement of comprehensive income for the year.

Management's Discussion and Analysis

XIII. Other Financial Indicators

Basic loss per share for the year ended 31 December 2009 was RMB0.2059, which fell by 175.17% from the basic earnings per share of RMB0.2739 in the same period of 2008. Return on equity (ROE) for the year ended 31 December 2009 was -11.88%, decreased by 25.59 percentage points from the return on equity (ROE) of 13.71% in the same period of 2008. This was mainly attributable to a decrease of 175.49% in loss attributable to shareholders as a result of the loss in 2009.

Table 3:

	2009	2008
Profitability		
(Loss) Earnings per share (RMB) *(Note 1)*	**(0.2059)**	0.2739
ROE *(Note 2)*	**(11.88%)**	13.71%

Note 1: Calculated on the basis of (loss) profit attributable to the shareholders of the Company for the reporting period divided by weighted average number of shares for the reporting period.

Note 2: Calculated on the basis of (loss) profit attributable to the shareholders of the Company for the reporting period divided by total equity as at the end of the reporting period.

As at 31 December 2009, the Group's current ratio was 1.28, and the debt-to-equity ratio was 48.82%, representing a more stable financial structure.

Table 4:

	2009	2008
Solvency		
Current ratio *(Note 1)*	**1.28**	1.07
Debt-to-Equity ratio *(Note 2)*	**48.82%**	57.89%

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

Note 2: Calculated on the basis of interest-bearing debt divided by total equity as at the end of the reporting period (interest-bearing debt does not include discounted and not yet matured bills payables).

Management's Discussion and Analysis

XIV. Liquidity and Financial Resources

The Group's principal sources of financing included cash, bank borrowings and proceeds from the issue of new shares and loan notes. 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 2009, cash and cash equivalents of the Group amounted to RMB191 million, which was mainly denominated in RMB, Euro and US dollar.

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

Table 5:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Secured	**2,172,643**	346,841
Unsecured	**2,919,422**	8,173,078
Bonds	**2,476,735**	–
Total	**7,568,800**	8,519,919

Table 6:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Within one year	**3,767,871**	7,536,557
Within 1-5 years	**1,204,194**	853,362
Over 5 years	**2,596,735**	130,000
Total	**7,568,800**	8,519,919

Management's Discussion and Analysis

Table 7:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Fixed interest rate	**5,166,013**	5,079,805
Floating interest rate	**2,402,787**	3,440,114
Total	**7,568,800**	8,519,919

As at 31 December 2009, certain property, plant and equipment, prepaid lease payments and bills receivables with carrying amount of RMB640 million, RMB38 million and RMB2,075 million, respectively, were pledged to secure banking facilities granted to the Group.

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

As at 31 December 2009, the Group had banking facilities of RMB38,100 million, including US$2,025 million and RMB24,300 million. The amount of utilized banking facilities was US$47 million and RMB4,700 million and that of unutilized banking facilities was US$1,978 million and RMB19,600 million.

XV. Operation and Financial Risks

The recovery of the world economy is of great uncertainty; fertilizer prices are quite volatile in the domestic market troubled by overproduction and fertilizer industry restructuring and market competition will get increasingly intense as market-oriented reforms deepened.

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

Management's Discussion and Analysis

Market risk

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

Most of the Group's assets, liabilities and transactions are denominated in Renminbi, US dollars and Hong Kong dollars. The exchange rates of Renminbi against US dollars and Hong Kong dollars are relatively stable. The fluctuations of foreign currencies did not have a significant impact on the performance of the Group. In addition, the management continued to monitoring and controlling the above risks so as to reduce any potential negative effect on the Group's financial performance.

Credit risk

The highest credit risk the Group confronted with was that the counterparties fail to perform their obligations in relation to each class of recognized financial assets, which have been confirmed and recorded in the consolidated statement of financial position as at 31 December 2009. The Group has adequate monitoring procedures in respect of granting credit line, credit approval and other related aspects so as to ensure the timely follow-up of overdue debt so as to greatly reduce the credit risk.

Liquidity risk

In order to manage the liquidity risk, the management monitored and maintained sufficient cash and cash equivalent of the Group, raised funds to fulfill the operation requirements as necessary and maintained a stable cash flow of the Group. The management further monitored the application of bank borrowings.

XVI. Contingent Liabilities

As at 31 December 2009, the Group had no material contingent liabilities.

Management's Discussion and Analysis

XVII. Capital Commitment

Table 8:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Assets under construction		
Contracted but not provided for	**69,983**	602,041
Authorized but not contracted for	**149,981**	110,973
Total	**219,964**	713,014

The Group plans to finance the above capital expenditure by internal resources. Besides the capital commitment stated above, the Group had no other material plans for major investment or capital asset acquisitions.

XVIII. Major Investments and Disposal

As at 31 December 2009, the Group had no material investment expenditure or disposal.

XIX. Human Resources Capital

As at 31 December 2009, the Group had about 11,140 full-time employees (including those employed by controlled entities), and their remuneration is determined with reference to market rates. 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. More details of the remuneration policy of the Group are set out in the "Corporate Governance Report" of this annual report on page 48.

Chronicle of Events

January 2009

The Group participated in an annual event organized by the Ministry of Agriculture, aiming to promote agro-technology among the farmers. The Group carried out its social responsibility by giving out fertilizers, VCDs and books on agrichemical knowledge to the farmers.

March 2009

The Company released its 2008 annual results.

Hubei Sinochem Orient Fertilizer Company Limited ("Sinochem Orient"), a subsidiary of the Company, was granted the High-Tech Enterprise Certificate co-issued by the Science & Technology Department, Department of Finance, State Administration of Taxation and Local Taxation Bureau of Hubei Province. According to relevant policies, Sinochem Orient is entitled to the preferential income tax treatments for 2008, 2009 and 2010, with income tax rate reduced from 25% to 15%.

Sinochem Fuling, a subsidiary of the Company, was granted RMB6.7 million of investment support by the central government for its waste water treatment and Clean Production Mechanism project. The project is to be completed through technological renovation by 2010.

April 2009

The Group, together with the Ministry of Agriculture, launched a special promotion program in eight provinces of China for Sinofert's Canadian potash fertilizers. Various activities were carried out in over 120 counties in the eight southern provinces of China, aiming to promote agro-technology among the farmers and help them on choosing and using fertilizers.

A production line for coated controlled-release fertilizer successfully went into operation at Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong"), a subsidiary of the Company. This special technology for fertilizer products was introduced by the Group from the China Agricultural University.

May 2009

The Group entered into a cooperation agreement with Shell International Petroleum Company Limited for the trial production of Sulphur Enhanced Fertilizers, which was part of the Group's efforts to better serve the Chinese agriculture through introducing and applying advanced fertilizer production technologies.

The 77th International Fertilizer Industry Association (IFA) 2009 Annual Conference, cosponsored by the Company, was successfully held in Shanghai. At the opening ceremony of the IFA, Mr. Du Keping, Chief Executive Officer of the Company, delivered a keynote speech to the delegates. During the IFA conference, under the leadership of the Chief Executive Officer Mr. Du Keping, the Sinofert delegation participated in over 80 meetings and discussions with international fertilizer producers, suppliers and traders. These exchanges promoted the Group's good cooperative relations with its counterparts both at home and abroad.

At the Executive Committee meeting of the 77th IFA Conference, Mr. Du Keping, Chief Executive Officer of the Company, was elected Vice President of the IFA in charge of relevant affairs in China.

Chronicle of Events

June 2009

The Company held its 2009 annual general meeting of shareholders.

The Company released Sinofert Corporate Social Responsibility Report 2008.

Sinochem Fertilizer, was elected as a council member of the Potash Sub-Association, China Inorganic Salt Industry Association.

September 2009

The Chinese government granted approval to Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan"), a subsidiary of the Company, for implementing the "Energy-saving and Renovation Project in the Ammonia and Urea Production System", which was rated to save 45,200 tons of coal equivalent per year.

November 2009

Sinochem Fertilizer successfully issued RMB2.5 billion of corporate bond in the PRC and thus the Company became the first company in the agricultural sector listed in Hong Kong that issued corporate bonds in the PRC.

Sinochem Fertilizer cooperated with the Ministry of Agriculture in the Program of Setting Up Demonstrative Counties for Agro-technology Promotion, planning to build another 1,000-plus exemplary villages throughout the country.

August 2009

The Company released its 2009 Interim Results.

October 2009

Sinochem Shandong and Sinochem Pingyuan, subsidiaries of the Company, were recognized as Provincial-Level Enterprise Technology Center by the Shandong provincial government.

December 2009

Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited ("Sinochem Zhisheng"), a subsidiary of the Company, successfully developed and produced nitrite-based compound fertilizers, further enriching the product mix of compound fertilizers of the Group.

The Phase 2 urea facility of Plant No. 1 of Sinochem Pingyuan went into operation, bringing the production capacity of Sinochem Pingyuan to 960,000 tons per year.

Directors and Senior Management

Directors

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

Mr. LIU De Shu, aged 57, 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 as the President and the Chief Executive Officer of Sinochem Group. Before joining Sinochem Group, he had been the deputy general manager, the general manager and the chairman of China National Machinery Import & Export Corporation. Mr. Liu holds other senior positions in several subsidiaries and joint venture companies of Sinochem Group. These positions include the chairman of Sinochem Corporation, the vice chairman of Dalian West Pacific Petrochemical Co., Ltd., the chairman of Sinochem Europe Holdings Plc., the chairman of Sinochem American Holdings Inc., the chairman of Lion Fund Management Ltd. and the director of Manulife-Sinochem Life Insurance Co. Ltd., China World Trade Center Co., Ltd and Commercial Aircraft Corporation of China, Ltd. All these companies are not publicly listed.

Mr. Liu has over 25 years of extensive corporate management experience in large-scale enterprises and has profound and yet pragmatic experiences in corporate strategic development, operation and internal control. Thanks to the outstanding performance of Sinochem Group 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. In 2008, Mr. Liu was honored as one of the "30 Business Leaders during China's 30-Year Opening up and Reform". Mr. Liu is a member of the 11th National Committee of the Chinese People's Political Consultative Conference, a director of International Academy of Management (IAM), the vice president of China Chamber of International Commerce and the vice president of China Shippers' Association.

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

Mr. DU Ke Ping, aged 48, is an Executive Director and Chief Executive Officer of the Company. Mr. Du graduated from the department of accounting 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 Group, 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 20-year service term at Sinochem Group, he had held a number of senior positions such as the deputy general manager of finance department in America West Pacific Refinery Co., deputy general manager of 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. He was appointed as the general manager of Sinochem International Fertilizer Trading Company in 1999 and was later promoted to assistant president and Vice President of Sinochem Group 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 Group so as to devote the whole of his time to lead the management and operations of the Company. Mr. Du has a profound understanding of corporate management and business operations with a keen insight on financial management and international strategic alliances.

Directors and Senior Management

Mr. Harry YANG – Executive Director and Deputy General Manager

Mr. Harry YANG, aged 47, is an Executive Director and Deputy General Manager of the Company, mainly responsible for the management of the Company's investor relations, property operations and logistic management. Mr. Yang graduated from Shandong Normal University in 1983 with a Bachelor degree and from the University of International Business and Economics in 1989 with a Master degree in International Business English. Mr. Yang joined Sinochem Group in 1989 and served successively as the general manager of Sinochem (USA) Inc. and Sinochem International London Oil Co., Ltd. and the director, general manager and deputy general manager of US Agrichemicals Corp. In 2002, Mr. Yang was appointed as the deputy general manager of fertilizer group, 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 had served at Sinochem Group for more than 20 years.

Dr. CHEN Guo Gang – Non-executive Director

Dr. CHEN Guo Gang, aged 50, is a Non-executive Director of the Company. Dr. Chen graduated from the accounting department of Xiamen University with a Doctorate degree in 1988 and is a Senior Accountant in the PRC. Dr. Chen joined Sinochem Group 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 Group. He now serves as the Chief Financial Officer of Sinochem Group and concurrently deputy general manager and head of financial affairs of Sinochem Corporation, and is responsible for finance, risk management and insurance of Sinochem Group. 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), the president of Sinochem Finance Co., Ltd, the president of Sinochem Europe Capital Corporation Ltd, director of Dalian West Pacific Petrochemical Co., Ltd, director of Sinochem Petroleum Exploration and Production Co., Ltd and a director of Manulife-Sinochem Life Insurance Co. Ltd.

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 59, 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 24 years experience in the fertilizer business, and has considerable experience in China and Asia, having lived and worked in the region for more than 15 years.

Directors and Senior Management

Mr. Wade FETZER III – Non-executive Director

Mr. Wade FETZER III, aged 72, 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 had been a director of Potash Corporation of Saskatchewan Inc. for 7 years until his retirement in 2009. 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.

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

Mr. KO Ming Tung, Edward, aged 49, was appointed as an Independent Non-executive Director of the Company in April 2000. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 18 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, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants 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. He is also a manager of Chiu Chow Association Secondary School.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Kai Yuan Holdings Limited, Wai Chun Group Holdings Limited and Interchina Holdings Company Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was previously a non-executive director of New Smart Energy Group Limited and an independent non-executive director of China Pipe Group Limited, whose shares are listed on the Main Board of the Stock Exchange.

Directors and Senior Management

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

Dr. TANG Tin Sek, aged 51, joined the Company in April 2000 as an Independent Non-executive Director. He is also the Chairman of the Remuneration Committee, and a 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 29 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 whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

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

Mr. TSE Hau Yin, Aloysius, aged 62, 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 graduate of the University of Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president and the current Chairman of the Audit Committee 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 also a member of the International Advisory Council of The People's Municipal Government of Wuhan.

Other than the directorship in the Company, currently, Mr. Tse is also an independent non-executive director of China Construction Bank Corporation, CNOOC Limited, China Telecom Corporation Limited, Wing Hang Bank, Limited, Linmark Group Limited and SJM Holdings Limited, all of which are companies whose shares are listed on The Stock Exchange of Hong Kong Limited.

Senior Management

Mr. CHEN Feng – Chief Financial Officer

Mr. CHEN Feng, aged 38, is the Chief Financial Officer of the Company. Mr. Chen graduated from Xiamen University in 1992, majoring in computing and application software, with a bachelor's degree in science. Mr. Chen obtained a master's degree in management accounting (economics) of Xiamen University in 1995. Mr. Chen joined Sinochem Group in 1995 and had served as General Manager of the Analysis and Evaluation Department of Sinochem Group. Mr. Chen joined the Company in March 2009 and was promoted to the present position.

Directors and Senior Management

Mr. WANG Tie Lin – Deputy General Manager & Director of Human Resources

Mr. WANG Tie Lin, aged 42, is the Deputy General Manager and the Director of Human Resources of the Company. Mr. Wang graduated from the department of mechanical engineering in Tsinghua University with a Bachelor's degree in 1990, and with a Master degree in mechanical engineering in 1994. Mr. Wang joined China Industrial Machinery Import and Export Corp in 1994, and joined Lion Fund Management Co., Ltd, of which Sinochem Group, the ultimate holding company of the Company, is a shareholder, in 2003. Mr. Wang joined Sinochem Fertilizer Company Limited as deputy general manager, was appointed as deputy general manager of the Company in May 2006. He was concurrently appointed as Director of Human Resources since August 2009.

Mr. SHEN Qi – Deputy General Manager

Mr. SHEN Qi, aged 37, is the 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 from Cheung Kong Graduate School of Business in 2007, with an EMBA degree. He joined Sinochem Group in 1995, and then joined Sinochem Fertilizer Company Limited in December 1997 as departmental manager. In November 2003, Mr. Shen was appointed deputy general manager of Sinochem Fertilizer Company Limited, and was promoted to the present position in August 2005.

Mr. FENG Ming Wei – Deputy General Manager

Mr. FENG Ming Wei, aged 47, is the Deputy General Manager of the Company. Mr. Feng graduated from Beijing University of Iron and Steel Technology specializing in automation in 1987 and had received qualification similar to research student majoring in international economic studies in Renmin University of China in July 1999. In 1984, he joined Sinochem Group, in which he had held positions in finance department and Sinochem representative office in Pakistan. He was further promoted as the 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 Limited in December 2001. He had held positions of deputy general manager of import department, general manager of fertilizer department No.1, and assistant general manager of Sinochem Fertilizer Company Limited. Mr. Feng was promoted to the present position in May 2007 and has over 25 years of working experience in Sinochem Group.

Mr. DUAN Changsheng – Deputy General Manager

Mr. DUAN Changsheng, aged 38, is the Deputy General Manager of the Company. Mr. Duan graduated from the Department of Chemistry of Nankai University in 1993 with a bachelor's degree in engineering. Mr. Duan joined Sinochem Group in 1993 and later joined Sinochem Fertilizer Company Limited in July 1998. He had served as departmental manager, assistant general manager of Sinochem Fertilizer Company Limited and other positions. Mr. Duan was promoted to the present position in January 2010, responsible for the International Trade and Cooperation Department and concurrently serves as general manager of the Nitrogen Department. Mr. Duan has over 16 years of working experience in Sinochem Group.

Directors and Senior Management

Mr. TAI Xuelin – Chief Engineer

Mr. TAI Xuelin, aged 50, is the Chief Engineer of the Company. Mr. Tai graduated from Nanjing Chemical Engineering Institute, majoring in inorganic chemical engineering, with a bachelor's degree of engineering in 1978, and passed training in international business administration at the University of International Business and Economics in 2004. Mr. Tai started to work in 1982 and had served as deputy general manager and senior engineer of Henan Anyang Chemical Industry Group Co., Ltd., division chief and chief engineer of Chemical Fertilizer Division of Planning Institute of Ministry of Chemical Industry. He was the chief compiler of China's "10th five-year plan" for the fertilizer industry and of the special report on the fertilizer industry for 2015. Mr. Tai also served as deputy director of strategic investment and cooperation office at China Three Gorges Corporation. Mr. Tai has won many invention awards both at home and abroad, with three individual invention patents at the state level and one collective invention patent at the state level. Mr. Tai joined the Company in May 2009 as chief engineer and concurrently the general manager of Science and Technology Management Department.

Corporate Governance Report

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited is committed to maintaining a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practices on corporate governance, and compliance with the Code on Corporate Governance Practices (the "Code on Corporate Governance Practices") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "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 reference of the committees in accordance with the relevant provisions.

For the year ended 31 December 2009 and up to the date of this report, the Company has complied with the code provisions in the Code on Corporate Governance Practices, and its amendments from time to time, except for a deviation from the code provision E.1.2 as described below.

The code provision E.1.2 of the Code on Corporate Governance Practices stipulates that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. In the annual general meeting of the Company held on 10 June 2009 ("2009 AGM"), Mr. Liu De Shu, the Chairman of the Board, did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2009 AGM, the Chairman of the Board authorized and the directors attended the meeting elected Mr. Du Ke Ping, Executive Director and Chief Executive Officer of the Company, to chair the meeting on behalf of the Chairman of the Board. Respective chairmen of the audit, remuneration and nomination committees of the Company were present at the 2009 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2 of 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 (the "Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all Directors, and the Directors have confirmed that they had complied with the required standards set out in the Model Code for the year under review.

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

Corporate Governance Report

Summary of Duties of the Board of Directors and Various Committees

Board of Directors

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

Board composition

As at the date of this report, the Board consists of nine members. Among them, two are Executive Directors, four are Non-executive Directors and three are Independent Non-executive Directors. The biographical details of the Directors are set out on pages 32 to 35 of this annual report.

During the year, Mr. Song Yu Qing resigned as Non-executive Director and Deputy Chairman of the Company.

Executive Directors:

All of the Executive Directors possess the qualification and experiences in their respective areas of responsibility and they have been worked for the Group for many years. Under the leadership of the Chairman of the Board, the Executive Directors are able to maintain the effective management of the Group's business.

Non-executive Directors:

The four Non-executive Directors of the Company are experienced and professionals in relevant business of the Group, who provide their professional opinion and analysis to the Board effectively.

Independent Non-executive Directors:

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

Independence of the Board

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

For the year ended 31 December 2009, Mr. Liu De Shu, Mr. Du Ke Ping and Dr. Chen Guo Gang each held directorships or other positions in Sinochem Group (the ultimate controlling shareholder of the Company), its subsidiaries and/or its associated companies; Mr. Harry Yang is a Director of US Agri-Chemicals Corporation, a member company of Sinochem Group whose business ceased operation in November 2005.

Corporate Governance Report

One of the Company's Non-executive Directors, Dr. Stephen Francis Dowdle, is nominated by Potash Corporation of Saskatchewan Inc. ("PotashCorp"), the second largest shareholder of the Company, to the Board of the Company. Dr. Stephen Francis Dowdle also holds senior position in PotashCorp and/or its subsidiaries. Mr. Wade Fetzer III, another Non-executive Director of the Company, was nominated by PotashCorp to the Board of the Company in 2006. During the year, Mr. Wade Fetzer III retired as an independent director of PotashCorp and since then, Mr. Wade Fetzer III no longer holds any position in PotashCorp. Currently, Mr. Wade Fetzer III is still a Non-executive Director of the Company.

Other than as described above, there is no other relationship among the Directors and, in particular, between the Chairman and the Chief Executive Officer.

Appointment, re-election and removal of Directors

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

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

Responsibilities of Chairman and Chief Executive Officer

The Board has authorized 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 implementation of the policies formulated by the Board and the management of the businesses and operations of the Group.

Major duties of the Board

The Board is primarily responsible for the following matters:

1. to approve and monitor the strategic plans of the Group;

2. to review the financial performance and results of the Group;

3. to review the dividend policy of the Company;

4. to approve/monitor major acquisitions, investment, asset transactions and any other significant expenditures of the Group; and

5. to supervise internal risk management policy of the Group.

Corporate Governance Report

The Board is responsible for overseeing the preparation of the annual consolidated financial statements which ensures a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2009, the Board have:

1. approved the adoption of the applicable Hong Kong Financial Reporting Standards;

2. selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;

3. made judgements and estimates that are prudent and reasonable, and ensured the consolidated financial statements are prepared on a going concern basis; and

4. ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

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

Board meetings

For the year ended 31 December 2009, the Board held a total of four meetings to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, investment and acquisition projects, and other significant matters. The attendance rates of the Chairman, Mr. Liu De Shu, and other members of the Board were as follows:

	Attendance rate
Executive Directors	
Mr. Du Ke Ping *(Chief Executive Officer)*	4/4
Mr. Harry Yang	4/4
Non-executive Directors	
Mr. Liu De Shu *(Chairman)*	4/4
Mr. Song Yu Qing *(Deputy Chairman) (resigned on 16 November 2009)*	3/4
Dr. Chen Guo Gang	3/4
Dr. Stephen Francis Dowdle	4/4
Mr. Wade Fetzer III	4/4
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	4/4
Dr. Tang Tin Sek	4/4
Mr. Tse Hau Yin, Aloysius	4/4

Corporate Governance Report

Audit Committee

An audit committee was established by the Board in 1999 (the "Audit Committee") with its written terms of reference. The Audit Committee currently comprises three Independent Non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Tse Hau Yin, Aloysius and the other members are Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek.

The terms of reference of the Audit Committee have been adopted since its establishment and subsequently amended in accordance with the Code on Corporate Governance Practices and its amendments from time to time. The terms of reference of the Audit Committee are available on the Company's website.

The terms of reference of the Audit Committee are summarized as follows:

1. to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration of external auditor and terms of engagement, and handle any issues regarding its resignation or dismissal;

2. to review and monitor the independence and objectiveness of the external auditor and the effectiveness of audit procedures in accordance with the applicable standards;

3. to develop and implement policies regarding the provision of non-audit services by the external auditor;

4. 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 judgements contained therein;

5. to review the financial controls, internal control and risk management systems of the Group;

6. 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 including the adequacy of resources, staff's qualifications and experience in the Group's accounting and financial reporting function, and their training programmes and budget;

7. to perform investigations, actively or as instructed by the Board, on significant findings and response from the management in respect of the internal control matters;

8. to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and monitor the effectiveness of the internal audit function;

9. to review the financial and accounting policies and practices of the Group;

10. to review the external auditor's management letters, and any material queries raised by the external auditor to the management in respect of accounting records, financial accounts or internal control system and the corresponding management's response; and

11. to ensure that the Board provides timely response to the issues raised in the external auditor's management letters.

Corporate Governance Report

The Audit Committee met four times during the year ended 31 December 2009. The Chief Financial Officer and the external auditor had also attended the meetings. The attendance rates of each of the committee members at these meetings were as follows:

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

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

1. reviewed and commented on the Company's annual and interim reports (including the consolidated financial statements contained therein), and the result announcements of the Company, and recommended the same for Board approval;

2. reviewed and discussed significant issues identified in the preparation of the consolidated financial statements;

3. reviewed the independence of the external auditor, considered and made recommendation to the Board on the engagement of external auditors and the audit fee for the year ended 31 December 2009;

4. discussed the audit plan, scope and responsibility before the commencement of work by the external auditor;

5. reviewed the terms of reference of the Audit Committee;

6. reviewed and commented on the Company's corporate governance practices and the Group's financial control, internal control and risk management systems and made sufficient communication with the management on related matters;

7. discussed the Group's internal audit plan with the Internal Audit Department;

8. met with the external auditor without the management's participation; and

9. reviewed the connected transactions conducted in 2009.

Corporate Governance Report

Remuneration Committee

A remuneration committee was established by the Board in August 2005 (the "Remuneration Committee") with its written terms of reference. The Remuneration Committee currently comprises four members. The Chairman of the Remuneration Committee is Dr. Tang Tin Sek and the other members are Mr. Ko Ming Tung, Edward, Mr. Tse Hau Yin, Aloysius and Dr. Stephen Francis Dowdle. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director of the Company, the remaining three members are all Independent Non-executive Directors. During the year ended 31 December 2009, Ms. Chen Yi Qing resigned as a member of the Remuneration Committee upon her resignation as Director of Human Resources of the Group.

The terms of reference of the Remuneration Committee, which are available on the Company's website, are summarized as follows:

1. 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;

2. 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 recommendations to the Board on the remuneration of Non-executive Directors;

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

4. to review and approve the compensation payable 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; and

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

Corporate Governance Report

The Remuneration Committee met once during the year ended 31 December 2009. The Remuneration Committee had also approved or passed certain proposals by circulation of written resolutions during the year, and had presented the relevant proposals to the Board for review or approval, where applicable, in subsequent board meetings. The attendance rate of each of the committee members at the aforesaid meeting were as follows:

	Attendance rate
Independent Non-executive Directors	
Dr. Tang Tin Sek *(Chairman)*	1/1
Mr. Ko Ming Tung, Edward	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Non-executive Director	
Dr. Stephen Francis Dowdle	1/1
Director of Human Resources of the Group	
Ms. Chen Yi Qing *(resigned from the position on 18 August 2009)*	1/1

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

1. approved the 2009 remuneration package (including cash compensation and bonus) of Executive Directors and senior management;

2. approved the 2009 long-term incentive plan to Executive Directors and senior management;

3. made recommendation to the Board in respect of the 2009 long-term incentive plan for Non-executive Directors;

4. made recommendation to the Board in respect of the proposal on directors' fee of Independent Non-executive Directors;

5. approved the remuneration package (including cash compensation and bonus) of the newly appointed senior management;

6. made recommendation to the Board in respect of the treatment of outstanding share options for a director upon his retirement; and

7. approved the re-appointment of remuneration consultant.

Corporate Governance Report

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 regular review on the emoluments of the Directors. No Director, or any of his associates and executive, is involved in deciding his/her own emoluments.

The Group reviews its remuneration policy annually and receives advice from professional consultant, if necessary, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 31 December 2009, the Group had about 11,140 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 2009, the Group provided 63,712 hours of training in aggregate for about 6,983 person-times. The training courses covered areas such as industry development, marketing management, operation and management, laws and regulations, lean management, project management, finance, logistics, information technology, safe production and general working skills. 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 to the Group's rapid developments; hence, improves the competitiveness of the Group.

Nomination Committee

A nomination committee was established by the Board in August 2005 (the "Nomination Committee") with its written terms of reference. The Nomination Committee currently comprises four members. The Chairman of the Nomination Committee is Mr. Ko Ming Tung, Edward and the other members are Dr. Tang Tin Sek, Mr. Tse Hau Yin, Aloysius and Dr. Stephen Francis Dowdle. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director of the Company, the remaining three members are all Independent Non-executive Directors.

Corporate Governance Report

The terms of reference of the Nomination Committee, which are available on the Company's website, are summarized as follows:

1. 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;

2. to identify suitably qualified individuals to become board members, select or recommend to the Board on the selection of individuals to be nominated for directorships;

3. to assess the independence of Independent Non-executive Directors; and

4. to make recommendations to the Board on relevant matters relating to the appointment and/or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee met once during the year ended 31 December 2009. The attendance rate of each of the committee members at the aforesaid 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:

1. reviewed the structure, size and composition of the Board and made suggestions to the Board;

2. reviewed the terms of directors and made recommendations to the Board on their renewal;

3. nominated the directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting; and

4. reviewed the independence of Independent Non-executive Directors and made suggestions to the Board.

No individual was nominated or appointed as a Director of the Company during the year.

Corporate Governance Report

External Auditor

The Group's external auditor is Deloitte Touche Tohmatsu. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. During the year, the Audit Committee has considered and approved the engagement of Deloitte Touche Tohmatsu as auditors of the Group for the year ended 31 December 2009 and the corresponding audit fees estimation.

The audit fees paid or payable by the Group to the external auditor in respect of its audit and other non-audit services for the year ended 31 December 2009 were as follows:

	For the year ended 31 December	
Nature of services	**2009**	2008
	RMB'000	*RMB'000*
Audit service (including audit of financial statements and other audit related projects)	**5,274**	11,211
Tax related service	**136**	12
Total	**5,410**	11,223

Financial Management

Being an essential component of corporate governance, the Group continues to pay attentions to the continuing improvements in financial management. In 2009, the Group continued to enhance the financial management in the following aspects: continuously adapting to the changes in external environment, optimizing fund management and debt structure; promoting the budget management and performance evaluation system and enhancing financial management ability of production subsidiaries, as well as improving quality and efficiency of financial personnel by enhancing centralized management and providing personalized training. All these works further enhanced the foundation of the Group's financial management system, improved the quality of management, and ensured effective management for the gradual development of the Group's strategy and business expansion.

In 2009, to cope with the global financial crisis, the Group actively sought to expand its banking facilities to meet the capital needs of the Group's business growth and strategic acquisitions. The Group's credit line was increased by RMB20.6 billion in 2009. At the same time, the Group successfully issued corporate bond of RMB2.5 billion in the PRC, so as to obtain long-term low-cost fund for the Group's future development and optimizing the Group's debt structure. By following closely the trend of exchange rate changes and interest rate changes, the Group adjusted its financing strategies accordingly from time to time, and utilized financing denominated in United States dollars and trade finance facilities, to lower capital risk and finance cost. Based on long-term cooperative relationship with financial institutions and with the aim of controlling risk, the Group provided value-added services to customers, including assisting customers to obtain financing, which may contribute to sales business.

Corporate Governance Report

In 2009, the Group strengthened the management in production subsidiaries, especially in financial management of production subsidiaries. The Group re-streamlined and optimized the work procedures for budget management and performance review of production subsidiaries. While strengthening the regularity of financial management and performance review abilities of the production enterprises, the Group also made huge efforts in boosting exchanges of business information with its subsidiaries.

In 2009, the Group also tightened the centralized management of the financial personnel. The financial team's awareness of corporate culture and policies as well as their executive ability were further enhanced. Meanwhile, personalized training programs were introduced for different positions to arouse the working enthusiasm of the financial personnel.

Internal Control

In compliance with the requirements set out in provision C.2 of the Code on Corporate Governance Practices contained in the Listing Rules, the Board understands its responsibility to maintain stable, appropriate and effective internal control and risk management systems and to perform regular review on them in order to protect the interests of the shareholders and the assets of the Group. During the year, the Board conducted reviews on the Group's internal control and risk management systems, which covered all significant aspects including financial control, operational control, compliance with regulations and risk management functions.

Work on Internal Control and Risk Management

The global financial tsunami triggered by the U.S. subprime mortgage crisis exposed a series of problems such as deterioration of social credit, absence of market regulation, failure of corporate internal control and moral risks. The exposure to various risks in a dramatically changing business environment had brought about not only severe challenges to the Group's business strategy and operating capabilities, but also real tests on the Group's internal control system and its effectiveness.

The Group had in place a generally effective internal control and risk management system. In compliance with the requirements set out in 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, the Group had, with reference to internationally advanced risk management maturity evaluation models, conducted multi-level appraisals on the quality of our internal control and risk management during 2009, so as to find out the internal control and risk management weaknesses existed in various business operations of the Group in an increasingly challenging business environment. In this way, the direction of management assistance was clearly defined, and management assisting abilities enhanced.

On the basis of carrying out efficiency appraisals of the Group's internal control and risk management system with reference to the COSO framework, the Group had, as mandated by the changing business environment and the need for sustainable growth, conducted maturity evaluations on the Group's internal control and risk management system in 2009. Such evaluations were focused on important business activities and key business areas of the Group, with reference to internationally advanced risk management maturity evaluation model.

Corporate Governance Report

With reference to the internationally advanced risk management maturity evaluation models, the Group conducted risk management maturity evaluations in the areas of trading, investment and distribution business. Both the quantitative and qualitative approaches in the forms of regular audit, questionnaire and sampling were adopted in the evaluation process to pinpoint the weaknesses of the internal control and risk management system and their corresponding impact.

Aiming to continuously improve its internal control and risk management system, the Group paid great attention to the creation of an internal control environment, and the improvement of corporate governance had become a founding stone for the internal control and risk management system. The core value of the Group's corporate culture – "being honest, collaborative and keen to learn, and working with consciousness, innovation and high aspirations" had been vigorously promoted among all the employees for the cultivation of good business ethics and professionalism and promoting good character and competence of the employees.

In order to better supervise the production enterprises and the distribution network and ensure normal business operations, senior management of Group adopted the following proactive measures after re-examining the Group's risk management strategy in tackling the severe business environment:

1. Regarding the management of production enterprises: while improving their legal entity governance structure, the Group vigorously pushed forward the low-cost strategy through lean management, saving energy and reducing consumption and technological progress. In addition, a team of technology-savvy talents was introduced to jointly enhance the core competency of the production enterprises;

2. Regarding the management of distribution network: the Group reshuffled the operation management and evaluation scheme of the distribution network with an aim to highlight the cost awareness and competition mind. Efforts were also made to explore new development models for the distribution network with the initiation of "Fert-mart" supermarket, attracting the liquid flow of funds from the farmers.

Set up of Internal Supervision System

The Group established an independent internal audit division with due authority and independence. The internal audit division continuously enhances audit concept based on orientation of risk, fully implements systematic and standardized audit procedures and methods, without any limitations. Regarding the Group's entire value chain, the internal audit division reviewed whole operation activities independently, objectively and continuously in terms of quality of corporate governance, risk management and internal control and performed comprehensive reviews on areas which were of particular concern to the management or the audit committee.

Corporate Governance Report

During the year, on the basis of such functions as internal audit, performance analysis and evaluation, trading process control and strategic progress analysis, the Group re-organized the independent internal control department to further consolidate its supervision system featuring total process control, the work of which covers the following three aspects:

1. In terms of strategy: focusing on the implementation of strategies, the allocation of resources, the analysis of operation environment and the forecast of operation results;

2. In terms of operation: focusing on the implementation of operational plan, the result of marketing strategy, the matching of product supply with sales, the result of inventory budget control implementation, capital security and utilization efficiency, operation costs control, quality of distribution channel operation and customer relationship management; and

3. In terms of management: focusing on efficiency and effectiveness of management, reviewing rationality of all processes, coordination of operation management and assessment on operation results.

The reform of supervision system helps the Group to implement existing strategy in the complicated and changing operation situation and to address challenges resulted from organic growth.

Investor Relation and Information Disclosure

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

The Group attaches great emphasis on investor's relationship work, for which the senior management of the Company is directly responsible for maintaining close contact with the investors via multiple channels. All these works were arranged in strict compliance with the Listing Rules and the "Rules Governing Information Disclosure Management" of the Company.

In 2009, investor relationship related tasks of the Company mainly consisted of the following:

1. In March 2009, the Company announced its 2008 annual results, held press conference and analysts meeting and conducted road-shows, which involved communications with investors from America, Europe and Asia, in subsequent dates.

2. In August 2009, the Company announced its 2009 interim results, held press conference and analysts meeting.

Corporate Governance Report

Besides road-shows and results announcement, the Group participated in several investor meetings organized by investment banks. In order to keep close contacts and smooth communications with fund managers, analysts and investment and analysis institutions, communications including one-to-one separate meetings, small-group conference and telephone conference were conducted in daily business. The Company had conducted as many as 400 visits or conversations with the investment and analysis institutions through different means in 2009. The Group has also invited investors to visit the Group's distribution network for on-site investigation and study.

In addition, the Group disclosed information through the Stock Exchange and the Company's website timely and accurately with strict compliance with the Listing Rules and the "Rules Governing Information Disclosure Management" of the Company, delivering important announcements to every shareholders. The Company also updated the website continuously to disclose basic information of the Group.

Health, Safety and Environment

In 2009, the Group adhered to the principle of "safety first, prevention first, and comprehensive harnessing" and the guidelines of "taking employees first, ensuring safety by law, and following the scientific concept of development" in its work, and conscientiously carried out various tasks related to Health, Safety and Environment (HSE), including improving HSE level, promoting safe work behaviour and the concept of lean management in HSE work as well as the standardization of the HSE management system. As a result, the Group was able to maintain the record of zero instance of significant accident and the ratio of mild injury was 1.36 per 100.

The Group attaches great importance to the health and occupational safety of its employees, and endeavours to create a safe, orderly and healthy working environment, providing a series of HSE protections for workers under special working settings.

Guided by the principle of "developing recycling economy, and utilizing resources comprehensively", the Group vigorously promoted recycling economy and clean production, and strove to realize maximum output with minimum waste emission in light of "reducing input, recycling and reusing." A new industrial growth model featuring "high-tech, good economic returns, low resource consumption, and less environmental pollution" was taking shape.

Laying a solid foundation for production safety with standardized safety management

In 2009, the Group, with "safety first" always in mind and with the aim of "regularizing HSE management system, focusing on HSE executing ability, boosting HSE work team with individualized responsibilities and creating an HSE culture", had made huge efforts in HSE input, training and checking and inspection as required by the Chinese government. Desirable progresses were achieved in various aspects, including rectification of major hazard sources, strengthening HSE workforce, intensifying inspections on branch companies and subsidiaries, as well as harnessing potential safety hazards and promoting HSE training. In particular, remarkable progresses were made at Sinochem Pingyuan and Sinochem Jilin Changshan Chemical Company Limited ("Sinochem Changshan"), two subsidiary nitrogen plants of the Group, in the rectification of high-pressure equipment and the fostering of an HSE culture, which contributed greatly to the safety of the Group as a whole.

Corporate Governance Report

Actively pushing forward HSE system building and fulfilling corporate social responsibilities

By the end of 2009, among the production subsidiaries of the Group, Sinochem Zhisheng, Sinochem Shandong, Sinochem Fuling and Sinochem Pingyuan had all passed the certification of three standards (Quality Management Systems, Environmental Management Systems and HSE Management Systems). In addition, other production subsidiaries of the Group also set up an effective HSE responsibility system and occupational health management system in compliance with the standards. Such efforts had given a great impetus to the work of building HSE management systems among the Group's production enterprises.

Adopting the environmental protection responsibility system to reduce pollution and waste emission

The production subsidiaries of the Group implemented a safety responsibility system for environmental protection and energy conservation and emission reduction. Through regular monitoring and analyzing of the emissions of "waste gas, waste water and industrial residue" and by taking effective measures when necessary, the aggregate volume of emissions of such wastes were brought under control. In 2009, pollutant emissions of the production enterprises were within the standards of the Chinese government or even reduced, and no pollution accident ever happened. Sinochem Fuling, the largest production subsidiary of the Group, constructed a waste water terminal harnessing project on top of its achievement of zero-waste water emission. The project, which had won financial support from the Chinese government, was able to completely solve the problems in the collection and emission of waste water caused by accident, initial stage rainwater and municipal waste water. At Sinochem Changshan, the project for direct reuse of urea waste water by deep hydrolysis was built to significantly reduce and recover the urea and ammonia in the waste water, achieving the result of emission reduction with increased economic returns.

Developing recycling economy and clean production technology

Following the guideline of "developing recycling economy, and utilizing resources comprehensively", the Group worked to maximize economic output while minimizing to the greatest extent possible pollutant emission, resource consumption and environmental pollution. By the end of 2009, a total of 11 energy saving and emission reduction projects at the state level had been filed by the Group's production subsidiaries, winning financial support totaling over RMB30 million from the Chinese government. Sinochem Shandong and Sinochem Fuling had passed the examination on clean production by their respective local government, and won various feasible plans for clean production. In 2010, the Group will continue to promote clean production and energy saving technologies among all its production enterprises.

Directors' Report

The board of directors of the Company (the "Board") are pleased to present the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2009.

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 the provision of 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 5 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 87 of the annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2009 (2008: HK4.64 cents per share, equivalent to approximately RMB0.0409 per share).

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 180 of the annual report.

Major Customers and Suppliers

During the year ended 31 December 2009, the aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's total turnover for the year, and the aggregate purchase attributable to the Group's five largest suppliers were also less than 30% of the Group's total purchases for the year.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year are set out in note 16 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company for the year are set out in note 31 to the consolidated financial statements.

Directors' Report

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 90 to 91 of the annual report.

Distributable Reserves of the Company

As at 31 December 2009, the Company had no reserves available for distribution to shareholders in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended) (2008: HK$379,332,000, equivalent to approximately RMB334,533,000).

Donations

The Group made no charitable donation for the year ended 31 December 2009.

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)* (resigned on 16 November 2009)
Dr. Chen Guo Gang
Dr. Stephen Francis Dowdle
Mr. Wade Fetzer III

Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward
Dr. Tang Tin Sek
Mr. Tse Hau Yin, Aloysius

In accordance with the bye-laws of the Company, Mr. Liu De Shu, Mr. Du Ke Ping, Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Save as disclosed in the section of "Directors' Service Contracts", no Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Report

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out from pages 32 to 37 of the annual report.

Disclosure of Information of Directors

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes of information of Directors are as follows:

Mr. Wade Fetzer III, Non-Executive Director of the Company, retired as an independent director of Potash Corporation of Saskatchewan Inc., substantial shareholder of the Company, during the year.

Mr. Ko Ming Tung, Edward, Independent Non-Executive Director of the Company, resigned as a non-executive director of New Smart Energy Group Limited, whose shares are listed on the Main Board of the Stock Exchange, in September 2009.

In addition, Dr. Tang Tin Sek, Independent Non-Executive Director of the Company, retired as an independent non-executive director of Wai Chun Group Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange, in September 2009.

Directors' Service Contracts

During the year 2008, Mr. Du Ke Ping, Executive Director and Chief Executive Officer of the Company, and Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, renewed their respective service contracts with the Company for a term of another three years, up to 27 July 2011. 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 the circumstances described in item (ii) above.

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

Directors' Interests in the Shares and Share Options

As at 31 December 2009, the interests of the Directors and chief executives in the shares, share options, underlying shares and debt securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

1. Ordinary shares of HK$0.1 each of the Company

As at 31 December 2009, a Director of the Company had long position in the shares of the Company as follows:

Name of Director	Capacity	Number of issued shares held
Harry Yang	Beneficial owner	600

2. Share options of the Company

The Company has adopted share option schemes to provide incentives to directors and eligible employees. 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. No share options under the Old Share Option Scheme can be granted after the adoption of the New Share Option Scheme.

i. Particulars of the share option schemes of the Company are set out in note 32 to the consolidated financial statements.

ii. As at 31 December 2009, 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	Number of underlying shares of the Company
Liu De Shu	Beneficial owner	1,029,900	1,029,900
Du Ke Ping	Beneficial owner	4,209,900	4,209,900
Chen Guo Gang	Beneficial owner	730,600	730,600
Harry Yang	Beneficial owner	894,600	894,600
Wade Fetzer III	Beneficial owner	256,000	256,000

Directors' Report

iii. The movements in the Company's share options granted to Directors and employees under both the Old Share Option Scheme and the New Share Option Scheme during the year ended 31 December 2009 were as follows:

Old Share Option Scheme

Grantees	Date of grant	Exercisable period *(Note 1)*	Exercise price *HK$*	Number of share options: Outstanding at 1 January 2009	Exercised during the year *(Note 2)*	Lapsed during the year	Outstanding at 31 December 2009
Directors							
Liu De Shu	23 January 2006	23 January 2008 – 22 January 2012	1.672	1,219,800	(609,900)	–	609,900
Song Yu Qing *(Note 4)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	949,200	(474,600)	–	474,600
Du Ke Ping	23 January 2006	23 January 2008 – 22 January 2012	1.672	4,399,800	(609,900)	–	3,789,900
Chen Guo Gang	23 January 2006	23 January 2008 – 22 January 2012	1.672	949,200	(474,600)	–	474,600
Harry Yang	23 January 2006	23 January 2008 – 22 January 2012	1.672	949,200	(474,600)	–	474,600
Employees							
Employees	23 January 2006	23 January 2008 – 22 January 2012	1.672	12,139,200	(5,726,200)	(138,400)	6,274,600
				20,606,400	(8,369,800)	(138,400)	12,098,200

Note 1: Two-thirds of the total number of share options granted to each Director and employee on 23 January 2006 are exercisable on or after 23 January 2008 and the remaining balance of share options granted are exercisable on or after 23 January 2009. All unexercised share options will expire on 23 January 2012.

Note 2: The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year was HK$4.07.

Note 3: No share options under the Old Share Option Scheme were granted or cancelled during the year.

Note 4: Mr. Song Yu Qing resigned as Non-Executive Director and Deputy Chairman of the Company effective on 16 November 2009.

Directors' Report

New Share Option Scheme

Grantees	Date of grant	Exercisable period *(Note 5)*	Exercise price *HK$*	Number of share options: Outstanding at 1 January 2009	Lapsed during the year	Outstanding at 31 December 2009
Directors						
Liu De Shu	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	420,000
Song Yu Qing *(Note 7)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	256,000
Du Ke Ping	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	420,000
Chen Guo Gang	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	256,000
Harry Yang	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	420,000
Wade Fetzer III	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	256,000
Employees						
Employees	28 August 2007	28 August 2009 – 27 August 2013	4.990	6,500,000	(328,732)	6,171,268
				8,528,000	(328,732)	8,199,268

Note 5: The exercisable period of the share options granted to each Director and employee can be analyzed as:

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

(ii) 16.7% of the share options granted will be exercisable on or after 28 August 2010; and

(iii) a further 25% of the share options granted will be exercisable on or after 28 August 2010, and the remaining 25% of the share options granted will be exercisable on or after 28 August 2011, provided that the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ended 31 December 2009 was more than HK$0.674. Since the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ended 31 December 2009 was less than HK$0.674, 50% of the share options granted will be forfeited on 28 August 2010.

All unexercised share options will expire on 28 August 2013.

Note 6: No share options under the New Share Option Scheme were granted, exercised or cancelled during the year.

Note 7: Mr. Song Yu Qing resigned as Non-Executive Director and Deputy Chairman of the Company effective on 16 November 2009.

Directors' Report

3. Derivative interests in the shares of the Company

As at 31 December 2009, Mr. Du Ke Ping and Mr. Harry Yang, Executive Directors of the Company, have derivative interests in respect of 362,526 shares and 253,711 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 253,711 shares in the Company, subject to, among other things, satisfaction of certain performance targets. As the specified performance targets of the Company had not been achieved, the derivative interests in respect of 362,526 shares and 253,711 shares in the Company, granted to Mr. Du Ke Ping and Mr. Harry Yang respectively, are forfeited effective on the date of approval of this report.

Save as disclosed above, as at 31 December 2009, none of the Directors or chief executives of the Company had any interests or short positions in any shares, share options, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debt securities of, the Company or any other body corporate, and neither the Directors nor chief executives of the Company, nor any of their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights during the year.

Substantial Shareholders

As at 31 December 2009, other than the Directors or chief executives of the Company, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholder	Number of issued ordinary shares held – long position	Percentage to the issued share capital of the Company
Sinochem Group *(Note 1)*	3,698,660,874	52.72%
Sinochem Corporation *(Note 1)*	3,698,660,874	52.72%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") *(Note 2)*	3,698,660,874	52.72%
Potash Corporation of Saskatchewan Inc. ("PotashCorp") *(Note 3)*	1,547,500,141	22.06%

Directors' Report

Note 1: Sinochem HK is the wholly-owned subsidiary of Sinochem Corporation (中國中化股份有限公司). Sinochem Corporation is the 98% owned subsidiary of Sinochem Group (中國中化集團公司, formerly known as Sinochem Corporation). Accordingly, Sinochem Group and Sinochem Corporation are deemed to be interested in 3,698,660,874 ordinary shares of the Company being corporate interest beneficially held by Sinochem HK.

Note 2: Sinochem HK was beneficially interested in 3,698,660,874 ordinary shares of the Company.

Note 3: These shares represent the corporate interest of PotashCorp held through its wholly-owned subsidiary, PCS (Barbados) Investment Company Limited.

Save as disclosed above, other than the Directors or chief executives of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2009.

Directors' Interests in Contracts of Significance

Save as disclosed herein, 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, were subsisted at the end of the year or at any time during the year.

Management Contracts

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

Directors' Interests in Competing Business

During the year ended 31 December 2009, Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, was a director of US Agri-Chemicals Corporation, which is a wholly-owned subsidiary of Sinochem Group. Although US Agri-Chemicals Corporation still maintained its company registration with the relevant authorities in the United States, it had ceased its operation in November 2005 and accordingly, there is no competing business with 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.

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

Connected Transactions

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

For the year ended 31 December 2009, the Group had the following transactions which constitute continuing connected transactions under the Listing Rules of the Stock Exchange and are hereby disclosed pursuant to Chapter 14A of the Listing Rules.

1. New and Renewal of Continuing Connected Transactions in 2009

From 1 January 2009 to 31 December 2009, the Company newly conducted or renewed the following continuing connected transactions, which are subject to reporting, announcement and/or independent shareholders' approval under Chapter 14A of the Listing Rules:

(1) Agrichemical Sourcing Framework Agreement between Sinochem Fertilizer and Sinochem Group

On 1 April 2009, Sinochem Fertilizer, a wholly-owned subsidiary of the Company, entered into the Agrichemical Sourcing Framework Agreement with Sinochem Group, the substantial shareholder of the Company. Pursuant to this agreement, Sinochem Fertilizer could source pesticides and other agrichemical products from Sinochem Group and its associates, including but not limited to its Subordinated Enterprises in order to strengthen the fully agricultural input's strategy of the Group and to further realize the network value of the Group.

Prices of pesticides and other agrichemical products provided by Sinochem Group and its associates shall be determined with reference to market prices within the PRC at the time Sinochem Fertilizer submits its purchase plan for pesticides and other agrichemical products.

As disclosed in the announcement dated 16 November 2007, Sinochem Fertilizer has entered into the Agrichemical Sourcing Agreement with Shenyang Research Institute of Chemical Industry ("SRICI"), an indirect wholly-owned subsidiary of Sinochem Group. Since the Agrichemical Sourcing Framework Agreement contemplates similar agrichemical sourcing transactions between Sinochem Fertilizer and SRICI, Sinochem Fertilizer and SRICI agreed that the Agrichemical Sourcing Agreement will therefore be amended and be treated as one of the specific agreements under the Agrichemical Sourcing Framework Agreement.

The maximum aggregate annual value in respect of the continuing connected transactions between Sinochem Group and its associates and Sinochem Fertilizer under the Agrichemical Sourcing Framework Agreement (inclusive of the Agrichemical Sourcing Agreement) for each of the three years ending 31 December 2011 is estimated to be RMB50,000,000, RMB100,000,000 and RMB150,000,000, respectively. Such estimates are calculated based on Sinochem Fertilizer's sales plan and projected quantities of sales of pesticides and other agrichemical products.

Given that the relevant applicable percentage ratios set out in the Listing Rules for the transactions contemplated under the Agrichemical Sourcing Framework Agreement is expected to be less than 2.5% on an annual basis, such transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 and 14A.46 of the Listing Rules and the annual review requirements under Rules 14A.37 and14A.38 of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 1 April 2009 published by the Company.

(2) Sulphur and Other Fertilizer Raw Materials Import Framework Agreement among Sinochem Fertilizer, Dohigh Trading and Sinochem Group

On 1 April 2009, Sinochem Fertilizer and Dohigh Trading, wholly-owned subsidiaries of the Company, entered into the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement with Sinochem Group, the substantial shareholder of the Company, so as to make full use of domestic preferential policies for import of fertilizer raw materials. Pursuant to this agreement, Sinochem Group will import sulphur and other fertilizer raw materials sourced by Dohigh Trading and sell them all to Sinochem Fertilizer. Except for any sulphur and other fertilizer raw materials imported by Sinochem Group on behalf of its other customers, Sinochem Group will sell all the sulphur and other fertilizer raw materials it imports to Sinochem Fertilizer.

Under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement, unless otherwise determined by the PRC Government, the pricing principles for the sale and purchase of sulphur and other fertilizer raw materials between the parties are as follows: (i) the price to be paid by Sinochem Group to Dohigh Trading for sulphur and other fertilizer raw materials sold by Dohigh Trading to Sinochem Group will be set in accordance with the prevailing international market price; (ii) the price to be paid by Sinochem Fertilizer to Sinochem Group for sulphur and other fertilizer raw materials sourced from overseas by Dohigh Trading will be set on a cost basis, that is, the price of the sulphur and other fertilizer raw materials acquired by Sinochem Group from Dohigh Trading plus product inspection costs, customs and excise handling charges, import duty, value-added tax and a reasonable administration cost incurred by Sinochem Group in relation to the import of sulphur and other fertilizer raw materials; and (iii) the price to be paid by Sinochem Fertilizer to Sinochem Group for sulphur and other fertilizer raw materials sourced by Sinochem Group 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 Dohigh Trading and Sinochem Group under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement for each of the three years ending 31 December 2011 is estimated to be US$20,000,000, US$25,000,000 and US$25,000,000, respectively. In addition, the maximum aggregate annual value in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement for each of the three years ending 31 December 2011 is estimated to be RMB160,310,000, RMB200,390,000 and RMB200,390,000, respectively.

Directors' Report

Given that each of the relevant applicable percentage ratios set out in the Listing Rules for the transactions contemplated under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement is expected to be less than 2.5% on an annual basis, such transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 and 14A.46 of the Listing Rules and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 1 April 2009 published by the Company.

(3) Financial Services Framework Agreement between the Company and Sinochem Finance

On 21 December 2009, the Company and Sinochem Finance entered into a Financial Services Framework Agreement under which Sinochem Finance provides financial services, such as deposit services to the Group. The agreement shall be effective for three year from the date of its signing. Pursuant to the Framework Agreement, the Group may, based on its actual needs and wills, utilize the services as deposit services, provision of loans (excluding entrustment loans), arrangement of entrustment loans, commercial bills of exchange services, buyer financing services, settlement services, provision of guarantees, internet banking services and any other financial services as approved by China Banking Regulatory Commission to be provided by Sinochem Finance, and, under the Framework Agreement, pay the relevant interest and service fees to or receive deposit interest from Sinochem Finance. The interests receipt from deposit services, the interests payable for the provision of loans, the fees charged for the provision of guarantees, internet banking services and other financial services approved by CBRC are determined by the standard rates as promulgated by the People's Bank of China from time to time or the prevailing market rates. The service fee and relevant interests payable for the arrangement of entrustment loans, commercial bills of exchange services and settlement services will not exceed the service fee and interest payable on such services under the same terms obtainable from independent commercial banks. No service fee is payable for buyer financing services.

Sinochem Finance is a wholly owned subsidiary of Sinochem Group, the substantial shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the financial services provided by Sinochem Finance to the Group under the Framework Agreement constitutes continuing connected transactions of the Company. As the relevant applicable percentage ratios set out in the Listing Rules for the aggregate amount of the deposit services under the Framework Agreement will be less than 2.5% on an annual basis, the deposit services (including the approved cap) are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirements under the Listing Rules. The Company expects that the annual cap on the outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance is RMB580 million during the term of the Framework Agreement. This amount has been calculated on the basis of several factors including (i) the capital management strategy of the Group; and (ii) the business development and financial needs of the Group. The approved cap refers to the maximum daily outstanding balance during the term of the Framework Agreement, and is not cumulative in nature.

Directors' Report

In respect of loan services, pursuant to Rule 14A.65(4) of the Listing Rules, the continuing connected transactions involving the provision of loans to the Group by Sinochem Finance (excluding entrustment loans) are exempt from the reporting, announcement and independent shareholders' approval requirements as these constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance.

Except for the deposit and loan services, other financial services under the Framework Agreement are exempt from the reporting, announcement and independent shareholders' approval requirements, as each of the relevant applicable percentage ratios in relation to the transaction amounts for these categories are, if aggregated on an annual basis, expected to be less than 0.1% under Rule 14A.31(2)(a) of the Listing Rules.

In addition, for any other financial services as approved by CBRC, the Company will comply with the relevant provisions under Chapters 14 and 14A of the Listing Rules as and when appropriate.

For detailed information on the aforesaid transactions, please refer to the announcement dated 22 December 2009 published by the Company.

(4) SPM and MP MOUs between Sinochem Macao and PCS Sales

As disclosed in the announcement dated 11 January 2007, on 10 January 2007, Sinochem Macao, a wholly-owned subsidiary of the Company, entered into an MOU with PCS Sales, a wholly-owned subsidiary of the Company's substantial shareholder, PotashCorp, 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 annual cap for the transactions under the MOU were US$4,840,000, US$8,800,000 and US$11,000,000 for the three years ended 31 December 2009, respectively. Such MOU expired on 31 December 2009, and these continuing connected transactions continue following the conclusion of the SPM MOU and MP MOU.

On 21 December 2009, Sinochem Macao entered into the SPM MOU with PCS Sales, under which PCS Sales supplies sulfate of potash magnesia to Sinochem Macao for a maximum of three years from 1 January 2010 to 31 December 2012. In addition, on the same day, Sinochem Macao entered into the MP MOU with PCS Sales, under which PCS Sales will supply muriate of potash to Sinochem Macao for a maximum of three years from 1January 2010 to 31 December 2012.

During the effective period under the SPM MOU and MP MOU, prices for the sulfate of potash magnesia and muriate of potash to be supplied will be determined through arms' length negotiations between the parties with reference to prevailing market conditions. The aggregate annual caps for the above two transactions under the MOUs are US$222,000,000, US$228,000,000 and US$234,000,000 for the three years ending 31December 2012 respectively.

Directors' Report

PCS Sales is a wholly-owned subsidiary of PotashCorp. As PotashCorp is a substantial shareholder of the Company, PCS Sales is a connected person of the Company by virtue of being an associate of PotashCorp. Accordingly, the continuing transactions between Sinochem Macao and PCS Sales constitute continuing connected transactions for the Company under the Listing Rules. As the applicable percentage ratios for the transactions contemplated under the MOUs are, on an annual basis, more than 2.5% and the total consideration for the MOUs is more than HK$10,000,000, the MOUs and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements as set out in Rule 14A.35 of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 11 January 2007 and 22 December 2009, and the circular dated 12 January 2010. The aforesaid two transactions have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 18 March 2010.

2. Other Continuing Connected Transactions

Other than the above-mentioned new and renewed continuing connected transactions, the continuing connected transactions of the Group in 2009 also include the following:

(5) Purchase of chemical and fertilizer products and materials by Sinochem Fertilizer from Guiyang Sinochem Kailin

On 16 April 2008, Sinochem Fertilizer, a wholly-owned subsidiary of the Company, entered into the Fertilizer Purchase Framework Agreement with Guiyang Sinochem Kailin. Guiyang Sinochem Kailin is an associate of Guizhou Kailin which is a substantial shareholder of Sinochem Shandong, a non wholly-owned subsidiary of the Company. Guiyang Sinochem Kailin is therefore regarded as a connected person under the Listing Rules.

Pursuant to the Fertilizer Purchase Framework Agreement, Guiyang Sinochem Kailin will supply, and Sinochem Fertilizer will purchase, chemical and fertilizer products and materials for sale and distribution in the PRC by Sinochem Fertilizer. Guiyang Sinochem Kailin shall not in any way restrict Sinochem Fertilizer's means of sale and distribution. The price of the Products shall be the fair market price in the PRC at the time the purchase order is placed, and shall be exclusive of the relevant transportation fees and ancillary costs.

Under the Fertilizer Purchase Framework Agreement and the subsequent revision of the annual cap, the annual cap for each of the three years ending 31 December 2010 is RMB600,000,000.

The Fertilizer Purchase Framework Agreement is classified as a continuing connected transaction of the Company under Rule 14A.34 of the Listing Rules. 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 Fertilizer Purchase Framework Agreement is less than 2.5% on an annual basis, such continuing connected transaction is subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules and is exempted from the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcements dated 16 April 2008 and 24 September 2008 published by the Company.

(6) Supply of raw materials, steam and electricity by Yongan Zhisheng to Sinochem Zhisheng

On 19 June 2008, Sinochem Zhisheng, a subsidiary of the Company, entered into the New Raw Materials Supply Agreement with Yongan Zhisheng to replace the Existing Raw Materials Supply Agreement entered into between the parties on 16 November 2007 for the purpose of ensuring effective, efficient and stable supply of New Raw Materials, steam and electricity. Pursuant to the New Raw Materials Supply Agreement, Yongan Zhisheng agreed to supply the New Raw Materials, steam and electricity to Sinochem Zhisheng. The New Raw Materials Supply 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. Accordingly, Yongan Zhisheng, as a substantial shareholder of Sinochem Zhisheng, is a connected person to the Company.

Pursuant to the New Raw Materials Supply Agreement, the price of the ammonia (氣氨), urea dissolution solution (尿素溶融液) and powdered urea (粉狀尿素) payable by Sinochem Zhisheng shall be the fair market price. The price of the remaining New Raw Materials shall be charged at the cost basis, and Yongan Zhisheng is entitled to review the cost position annually. In addition, pursuant to the New Raw Materials Supply Agreement, Yongan Zhisheng will supply steam and electricity to Sinochem Zhisheng for its production in Yongan County. The price of steam shall be charged at the cost basis. The price of electricity shall be charged at the cost basis, which is with reference to, among other things, the rate charged for industrial enterprises as published by Electricity Bureau of Yongan County (永安市供電局) and the average rate of electricity cost of Yongan Zhisheng for the relevant month.

Directors' Report

The revised annual caps for the purchase of the New Raw Materials and the supply of steam and electricity under the New Raw Material Supply Agreement for each of the three years ending 31 December 2010 was set at RMB126,866,000, RMB144,751,800 and RMB144,751,800, respectively. Such revised annual caps were 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, the revised pricing model under the New Raw Materials Supply Agreement and the existing and the anticipated growth of the purchase volume and market price of the New Raw Materials.

As each of the relevant applicable percentage ratios set out in the Listing Rules for determining the value for the New Raw Materials Supply Agreement is expected to be less than 2.5% on an annual basis, therefore, the New Raw Materials Supply Agreement falls within Rule 14A.34 of the Listing Rules, and is subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules and is exempt from the independent shareholders' approval requirement under Rule 14A.48 of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement dated 19 June 2008 published by the Company.

(7) Provision of Logistics Services to Sinochem Fertilizer and Tianjin Beifang by Tianjin Beihai

As disclosed in the announcement dated 24 February 2006, Sinochem Fertilizer and Tianjin Beihai entered into the Former SF Service Agreement, and Tianjin Beifang and Tianjin Beihai entered into the Former Tianjin Beifang Service Agreement. Such agreements had expired on 31 December 2008. These continuing connected transactions continue following the conclusion of the new service agreements.

On 24 September 2008, Sinochem Fertilizer entered into the New SF Service Agreement and Tianjin Beifang entered into the New Tianjin Beifang Service Agreement with Tianjin Beihai respectively. Under the New SF Service Agreement, 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. The fees payable for the delivery of goods and the provision of services, including packaging and storage, between Tianjin Beihai and Sinochem Fertilizer shall be determined in accordance with the manner of service, the type of service and the actual fee incurred in respect of goods relating to each vessel, and shall be settled in accordance with prevailing market prices and on customary shipping terms, and an agreement will be separately entered into between Tianjin Beihai and Sinochem Fertilizer. Under the New Tianjin Beifang Service Agreement, Tianjin Beihai will provide unloading, packaging, storage, port and other related 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 fees payable for the packaging and storage services provided by Tianjin Beihai to Tianjin Beifang shall be determined in accordance with the manner of service, the type of service and the actual fee incurred in respect of goods relating to each vessel, and shall be settled in accordance with prevailing market prices and on customary shipping terms, and an agreement will be separately entered into between Tianjin Beihai and Tianjin Beifang.

Sinochem Fertilizer is a wholly-owned subsidiary of the Company. Tianjin Beifang is held as to 60% by Sinochem Fertilizer and 40% by Tianjin Port. As Tianjin Beihai is held as to approximately 48.18% by Tianjin Port, Tianjin Beihai is therefore a connected person of the Company under the Listing Rules.

The transactions contemplated under The New SF Service Agreement and the New Tianjin Beifang Service Agreement are aggregated and treated as if they were one transaction pursuant to Rule 14A.25 of the Listing Rules. The annual caps for the transactions for each of the three years ending 31 December 2011 are RMB40,000,000, RMB60,000,000 and RMB80,000,000 respectively. The annual caps have been set based on the projected quantities of products for which Sinochem Fertilizer and Tianjin Beifang require the services of Tianjin Beihai at the port of Tianjin as estimated by the management and the related fees payable for each of the relevant years ending 31 December 2011.

As each of the relevant percentage ratios set out in the Listing Rules in respect of the aggregate amount of the annual caps for the New Service Agreements are, on an annual basis, less than 2.5%, the New Service Agreements are classified as continuing connected transactions of the Company under Rule 14A.34 of the Listing Rules and are subject to the reporting and announcement requirement set out in Rules 14A.45 to I4A.47 of the Listing Rules, but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 24 September 2008 published by the Company.

(8) 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 PotashCorp (the substantial shareholder as well as the connected person of the Company). As Canpotex is an associate of PotashCorp (as defined under the Listing Rules), the memorandum entered into between Canpotex and Sinochem Macao therefore constitutes a continuing connected transaction of the Company under the Listing Rules.

Pursuant to the memorandum, 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 Canadian potash. 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 mutually agreed to by both parties.

Directors' Report

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, which are consistent with the longstanding procedures and practice between Canpotex and the members of the Group.

The 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 each of the three years ended 31 December 2009, respectively. The 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.

As the relevant applicable percentage ratio set out in the Listing Rules for determining the value for the memorandum is expected to be more than 2.5% on an annual basis, and the annual consideration is more than HK$10,000,000, therefore, the memorandum falls within the transactions under Rule 14A.35, and is subject to the disclosure and independent shareholders' 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.

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 independent shareholders of the Company at the special general meeting held by the Company on 9 June 2006.

(9) Import Service Framework Agreement between Sinochem Fertilizer, Sinochem Macao and Sinochem Group

Sinochem Fertilizer, Sinochem Macao and Sinochem Group entered into the Import Service Framework Agreement on 16 November 2007. Sinochem Fertilizer and Sinochem Macao are the wholly-owned subsidiaries of the Company, while Sinochem Group is the substantial shareholder and hence the connected person of the Company. As under PRC law, the Group is not allowed to import fertilizers and the right to import fertilizers is only granted to Sinochem Group and several other importers, Sinochem Group has agreed to provide import service to the Group under this agreement. Pursuant to the agreement, fertilizer products sourced from overseas by Sinochem Macao for Sinochem Fertilizer will first be sold to Sinochem Group. Sinochem Group, 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 Group also imports a small amount of fertilizer products directly from specific companies from time to time. Sinochem Group has undertaken that, except for any fertilizer products imported by it on behalf of its other customers, it will sell all the imported fertilizer products to Sinochem Fertilizer exclusively.

Directors' Report

On the other hand, Sinochem Fertilizer is free to purchase fertilizer products from any authorized importers. Sinochem Fertilizer, Sinochem Group 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 Group. 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 Group to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Group will be set in accordance with the prevailing international market price;

(ii) the price to be paid by Sinochem Fertilizer to Sinochem Group 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 Group 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 Group in relation to the import of the fertilizers; and

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

The aggregate annual caps in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group under the Import Service Framework Agreement for each of the three years ending 31 December 2010 are estimated to be US$2,454,840,000, US$2,705,820,000 and US$3,029,700,000, respectively. Such estimates are calculated based on the projected quantities of purchase by Sinochem Group 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 fertilizer products.

The aggregate annual caps in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group under the Import Service Framework Agreement for each of the three years ending 31 December 2010 are 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

Directors' Report

(ii) the projected quantities of sales of fertilizer products sourced by Sinochem Group 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 fertilizer products.

As the relevant applicable percentage ratio set out in the Listing Rules for determining the value for the Import Service Framework Agreement is expected to be more than 2.5% on an annual basis, and the annual consideration is more than HK$10,000,000, therefore, the Import Service Framework Agreement falls within the transactions under Rule 14A.35, and is subject to the disclosure and independent shareholders' 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.

For detailed information on the aforesaid transactions, please refer to the announcement dated 16 November 2007 and the circular dated 10 December 2007 published by the Company. The aforesaid continuing connected transactions were approved for renewal by the independent shareholders of the Company in the special general meeting of the Company held on 28 December 2007.

(10) UK Service Agreement between Sinochem Macao and Sinochem UK

On 16 November 2007, Sinochem UK, a wholly-owned subsidiary of Sinochem Group, entered into the UK Service Agreement with Sinochem Macao, a wholly-owned subsidiary of the Company. The agreement will expire on 31 December 2010. As Sinochem Group is the substantial shareholder of the Company, therefore, Sinochem Group and its respective associates are the connected persons of the Company according to the Listing Rules.

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 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.

Such services are provided at the request of the Group as the Group does not have any staff working in Europe. Sinochem UK shall issue the invoice to 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 annual caps of fees payable to Sinochem UK for each of the three years ending 31 December 2010 will be approximately US$2,000,000. Such estimates are calculated based on projected quantities of purchases by 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 fertilizer products in Europe.

Directors' Report

As the relevant applicable percentage ratio set out in the Listing Rules for determining the value for the UK Service Agreement is less than 2.5% on an annual basis, therefore, the UK Service Agreement falls within the transaction under Rule 14A.34, and is subject to the disclosure requirements under Rules 14A.45 and 14A.46 of the Listing Rules and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

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

(11) Provision of Logistics Services to Tianjin Beifang by Tianjin Port Group

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 settled 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 annual caps 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 are 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.

As the relevant applicable percentage ratio set out in the Listing Rules for determining the value of the Logistics Services Agreement is less than 2.5% on an annual basis, therefore, the Logistics Services Agreement falls within the transaction under Rule 14A.34 of the Listing Rules, and is subject to the disclosure requirements under Rules 14A.45 and 14A.46 of the Listing Rules and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

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

Directors' Report

(12) Tianjin Port Service Agreement between Tianjin Beifang and Tianjin Sinochem Storage

On 10 January 2007, Tianjin Beifang, which is held as to 60% of its equity interest by the Group, entered into the Tianjin Port Service Agreement with Tianjin Sinochem Storage. Tianjin Sinochem Storage is held as to 60% by Sinochem International and 40% by Sinochem Tianjin Corporation, Sinochem International and Sinochem Tianjin Corporation are in turn approximately 64.4% held and 100% held by Sinochem Group, the substantial shareholder of the Company. Tianjin Sinochem Storage therefore constitutes an associate of Sinochem Group and a connected person of the Company. Accordingly, the continuing transactions between Tianjin Beifang and Tianjin Sinochem Storage represent continuing connected transactions for the Company under the Listing Rules.

Pursuant to the Service Agreement, the parties agreed to enter into the transactions 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.

The annual caps for the transactions under the Tianjin Port Service Agreement are RMB16,200,000, RMB18,900,000 and RMB18,900,000 for the three years ended 31 December 2009, respectively.

Tianjin Sinochem Storage is required to pay Tianjin Beifang service charges comprising of a prescribed fee based on the volume of goods handled and handling method, ranging from RMB48.5 to RMB58.5 per ton, and the specific services and other expenses incurred for each lot of goods unloaded. The service charges are required to be settled following the provision of the relevant services on a per shipment basis and within a week after receipt of the payment instructions by Tianjin Sinochem Storage. The service charges have been determined after arm's length negotiation between the parties.

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 dated 11 January 2007 published by the Company.

Directors' Report

(13) Property Leasing Agreement between Sinochem Fertilizer and Chemsunny

On 8 June 2007, Sinochem Fertilizer, a wholly-owned subsidiary of the Company, entered into a property leasing agreement with Chemsunny. Chemsunny is a connected person of the Company by virtue of Chemsunny being an indirect wholly-owned subsidiary of Sinochem Group, the substantial shareholder of the Company. Accordingly, the transaction pursuant to the Leasing Agreement between Sinochem Fertilizer and Chemsunny constitutes a continuing connected transaction of the Company under the Listing Rules.

Pursuant to the Leasing Agreement, 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, as office premises of Sinochem Fertilizer for the period from 1 June 2007 to 31 December 2009. The Leasing Agreement was effective from 1 June 2007 and expired on 31 December 2009. There was a three-month rent-free period from 1 June 2007 to 31 August 2007. The annual rent payable in relation to the Property is determined by reference to prevailing market rent.

The annual caps for the transactions under the Lease Agreement are RMB6,606,092, RMB18,118,980 and RMB18,118,980 for the three years ended 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 Leasing Agreement for the relevant years, taking into account the rent-free period for the first year and the possible annual increment in management fees and utility charges in accordance with the terms of the Leasing 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 Leasing Agreement is, on an annual basis, less than 2.5%, the Leasing 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 Rules 14A.45 to 14A.47 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 dated 8 June 2007 published by the Company.

Directors' Report

(14) Agrichemical Sourcing Agreement between Sinochem Fertilizer and SRICI

On 16 November 2007, Sinochem Fertilizer, a wholly-owned subsidiary of the Company, entered into an Agrichemical Sourcing Agreement with Shenyang Research Institute of Chemical Industry, a wholly-owned subsidiary of Sinochem Group, under which Sinochem Fertilizer purchases SRICI's agrichemical products and is granted the exclusive right to sell such products in various districts in the PRC. Such agreement will expire on 31 December 2010. Since SRICI is an indirect wholly-owned subsidiary of Sinochem Group, the agrichemical sourcing transaction will be regarded as a continuing connected transaction of the Company under the Listing Rules.

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. Prices of SRICI's agrichemical products shall be made with reference to market prices and decided by Sinochem Fertilizer and SRICI in writing after negotiation. Payments for such agrichemical products shall be made with 30 days of delivery of such products by SRICI. The maximum turnovers of the transactions contemplated under the Agrichemical Sourcing Agreement for the three years ending 31 December 2010 are estimated to be RMB20,000,000, RMB30,000,000 and RMB40,000,000, respectively.

As the relevant applicable percentage ratio set out in the Listing Rules for determining the value under the Agrichemical Sourcing Agreement is expected to be less than 2.5% on an annual basis, such transaction falls within Rule 14A.34 of the Listing Rules, and is subject to the disclosure requirements under Rules 14A.45 and 14A.46 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

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

As disclosed in the announcement dated 1 April 2009, Sinochem Fertilizer and Sinochem Group entered into the Agrichemical Sourcing Framework Agreement. Since the Agrichemical Sourcing Framework Agreement contemplates similar agrichemical sourcing transactions between Sinochem Fertilizer and SRICI, Sinochem Fertilizer and SRICI agreed that the Agrichemical Sourcing Agreement will therefore be amended and be treated as one of the specific agreements under the Agrichemical Sourcing Framework Agreement.

Directors' Report

(15) Fertilizer Purchase Framework Agreement between Sinochem Fertilizer and Qinghai Salt Lake Potash

On 26 November 2007, Sinochem Fertilizer, a wholly-owned subsidiary of the Company, entered into the Fertilizer Purchase Framework Agreement with Qinghai Salt Lake Potash in its ordinary and usual course of business, which allows Sinochem Fertilizer to obtain a steady supply of potash fertilizer. The Fertilizer Purchase Framework Agreement took effect from the beginning of the 2008 financial year and will expire on 31 December 2010. Qinghai Salt Lake Potash became a connected person of the Company by reason of Qinghai Salt Lake Potash being an associate of Qinghai Salt Lake Industry Group, a substantial shareholder of Sinochem Shandong (Sinochem Shandong is a subsidiary held as to 51% equity interest by the Company).

Pursuant to the Fertilizer Purchase Framework Agreement, Qinghai Salt Lake Potash will supply, and Sinochem Fertilizer will purchase, chemical and fertilizer products and materials. The price of the fertilizers shall be their fair market price in the PRC at the time the purchase order is placed, and shall be exclusive of the relevant transport fees. Sinochem Fertilizer shall provide monthly to Qinghai Salt Lake a purchase plan setting out the quantity of potash fertilizer Sinochem Fertilizer intends to purchase for the following month, and shall pay in advance to Qinghai Salt Lake a deposit equivalent to 50% of the purchase price for such quantity. The remaining purchase price shall be calculated based on the actual quantity of potash fertilizer purchased by Sinochem Fertilizer in the relevant month, and Sinochem Fertilizer shall pay to Qinghai Salt Lake such remaining purchase price before the 10th day of the following month.

The Company estimates that the annual caps of purchases of potash fertilizers by Sinochem Fertilizer under the Fertilizer Purchase Framework Agreement will be RMB2,400,000,000, RMB2,880,000,000 and RMB4,200,000,000 for each of the three years ending 31 December 2010.

Given that the relevant applicable percentage ratio set out in the Listing Rules for determining the value under the Fertilizer Purchase Framework Agreement is expected to be 2.5% or above on an annual basis 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 independent shareholders' approval requirements under Rules 14A.45, 14A.46 and 14A.48 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement dated 28 November 2007 and the circular dated 12 December 2007 published by the Company. The aforesaid continuing connected transaction was approved by the independent shareholders of the Company in the special general meeting of the Company held on 28 December 2007.

Directors' Report

3. **The annual caps approved for and the actual transaction amount of continuing connected transactions of the Group for the year 2009 are set out below:**

Name of Transactions	Currency	Annual Caps for Year 2009 *($'000)*	Actual Transacted Amount For Year 2009 *($'000)*
Continuing Connected Transactions subject to Independent Shareholders' Approval Requirements			
(1) Import Service Framework Agreement			
(i) Sinochem Group imports from Sinochem Macao	USD	2,705,820	363,298
(ii) Sinochem Fertilizer purchases from Sinochem Group	RMB	20,570,980	2,714,613
(2) Sinochem Macao imports Canadian potash from Canpotex International Pte. Limited (on behalf of Canpotex Limited)	HK$	6,300,000	619,491
(3) Sinochem Fertilizer purchases fertilizer products from Qinghai Salt Lake Potash	RMB	2,880,000	1,927,557
Continuing Connected Transactions exempted from Independent Shareholders' Approval Requirement but Subject to Reporting, Announcement and Annual Review Requirements			
(4) Sinochem UK provides agency services to Sinochem Macao	USD	2,000	1,993
(5) Tianjin Port Group provides logistic services to Tianjin Beifang	RMB	128,600	121,302
(6) Yongan Zhisheng supplies raw materials to Sinochem Zhisheng	RMB	144,752	27,314
(7) (i) Tianjin Beihai provides logistics services to Sinochem Fertilizer	RMB	40,000	2,334
(ii) Tianjin Beihai provides packaging services to Tianjin Beifang	RMB	40,000	167

Directors' Report

Name of Transactions		Currency	Annual Caps for Year 2009 *($'000)*	Actual Transacted Amount For Year 2009 *($'000)*
Continuing Connected Transactions exempted from Independent Shareholders' Approval Requirement but Subject to Reporting, Announcement and Annual Review Requirements (Continued)				
(8)	PCS Sales supplies sulfate of potash magnesia to Sinochem Macao	USD	11,000	–
(9)	Tianjin Beifang provides logistic services to Tianjin Sinochem Storage	RMB	18,900	–
(10)	Sinochem Fertilizer leases property from Chemsunny	RMB	18,119	15,572
(11)	Sinochem Fertilizer purchases fertilizer from Guiyang Sinochem Kailin	RMB	600,000	–
(12)	Sinochem Fertilizer purchases pesticide from SRICI	RMB	30,000	6,082
(13)	Sinochem Fertilizer purchases agrichemical products from Sinochem Group and its associates	RMB	50,000	10,627
(14)	Sulphur and Other Fertilizer Raw Materials Import Framework Agreement:			
	(i) Dohigh Trading supplies sulphur and other fertilizer raw materials to Sinochem Group	USD	20,000	6,267
	(ii) Sinochem Fertilizer purchases sulphur and other fertilizer raw materials from Sinochem Group	RMB	160,310	33,057
(15)	Outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance	RMB	580,000	–

Directors' Report

4. **Confirmation from Independent Non-Executive Directors**

In the opinion of the Independent Non-executive Directors of the Company, the continuing connected transactions for the year ended 31 December 2009 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.

5. **Confirmation from external auditor in respect of the continuing connected transactions**

The Board has received a letter from the external auditor, expressing that the above continuing connected transactions:

- have received the approval of the Board of Directors of the Company;
- have been entered into in accordance with the terms of the relevant agreement governing such transactions;
- have not exceeded the relevant cap amount for the financial year ended 31 December 2009 as set out in the announcements or circulars of the Company; 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 Group is the ultimate controlling shareholder of the Company. The contracts of significance between the Company and/or its subsidiaries with Sinochem Group and/or its subsidiaries are disclosed in details in the sections headed "Connected Transactions" and "Major Discloseable Events" in this Directors' Report.

Directors' Report

Major Discloseable Events

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

The Company had the following major events during the year:

Sinochem Fertilizer Company Limited, an indirectly wholly-owned subsidiary of the Company, had completed a public offering of 10-year Corporate Bonds with a fixed interest rate per annum of 5.00% in an aggregate amount of RMB2.5 billion (equivalent to approximately HK$2.85 billion) to PRC domestic institutional investors on 27 November 2009. The proceeds were proposed to be used for fixed-asset investment projects, repayment of working capital loans and for supplementing working capital, etc. Please refer to the announcement dated 27 November 2009 published by the Company for detailed information.

Pre-emptive Rights

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

Purchase, Sale or Redemption of the Company'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 maintained sufficient public float exceeding 25% of its issued share capital throughout the year ended 31 December 2009.

Remuneration Policy

The emoluments of the Directors of the Company are reviewed by the Remuneration Committee of the Company from time to time with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the remuneration policy of the Group are set out in the "Corporate Governance Report" on page 48.

Retirement Benefits Scheme

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

Directors' Report

Housing Funds

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

Post Balance Sheet Event

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

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2009 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.

For and on behalf of the Board

Liu De Shu
Chairman

Hong Kong, 18 March 2010

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 87 to 179, which comprise the consolidated statement of financial position of the Group as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and statement of cash flows 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 2009 and of the Group's loss 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
18 March 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Revenue	5	**27,010,709**	45,392,885
Cost of sales		**(27,573,458)**	(41,991,515)
Gross (loss) profit		**(562,749)**	3,401,370
Other incomes and gains	6	**771,523**	281,935
Distribution and selling expenses		**(832,566)**	(687,558)
Administrative expenses		**(491,679)**	(544,280)
Other expenses		**(824,696)**	(591,984)
Share of results of associates		**250,322**	104,138
Share of results of jointly controlled entities		**(57,545)**	18,311
Finance costs	7	**(451,418)**	(294,885)
Changes in fair value of derivatives		**49,712**	163,160
Gain on settlement of convertible loan notes		**–**	2,440
Gain on deemed partial disposal of equity interest in a subsidiary		**–**	17,438
Discount on acquisition of a subsidiary		**–**	214,152
(Loss) profit before tax		**(2,149,096)**	2,084,237
Income tax credit (expense)	8	**683,127**	(176,430)
(Loss) profit for the year	10	**(1,465,969)**	1,907,807
Other comprehensive income			
Exchange differences arising on translation		**(13,618)**	(77,156)
Changes in fair value of available-for-sale investments		**389,877**	(616,000)
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments		**(491,388)**	(62,593)
Income tax relating to components of other comprehensive income		**30,170**	149,972
Other comprehensive loss for the year (net of tax)		**(84,959)**	(605,777)
Total comprehensive (loss) income for the year		**(1,550,928)**	1,302,030
(Loss) profit for the year attributable to:			
– Owners of the Company		**(1,443,813)**	1,912,555
– Minority interests		**(22,156)**	(4,748)
		(1,465,969)	1,907,807
Total comprehensive (loss) income attributable to:			
– Owners of the Company		**(1,528,772)**	1,306,778
– Minority interests		**(22,156)**	(4,748)
		(1,550,928)	1,302,030
(Loss) earnings per share			
Basic	14	**RMB (0.2059)**	RMB0.2739
Diluted	14	**RMB (0.2059)**	RMB0.2490

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Non-current Assets			
Investment properties	15	**14,600**	14,600
Property, plant and equipment	16	**4,994,863**	4,580,533
Other long-term assets	21	**44,173**	46,801
Prepaid lease payments	17	**478,309**	512,240
Interests in associates	18	**7,063,857**	7,063,039
Interests in jointly controlled entities	19	**729,008**	792,921
Available-for-sale investments	20	**176,934**	501,710
Advance payment for acquisition of property, plant and equipment		**23,117**	151,827
Goodwill	22	**579,258**	579,757
Deferred tax assets	30	**895,316**	189,265
		14,999,435	14,432,693
Current Assets			
Inventories	24	**5,828,901**	11,569,643
Prepaid lease payments	17	**30,276**	26,621
Trade and bills receivables	25	**2,775,778**	2,228,667
Advance payment to suppliers		**1,116,548**	1,399,543
Other receivables		**326,722**	299,675
Pledged bank deposits	26	**22,907**	7,936
Bank balances and cash	26	**190,584**	160,302
		10,291,716	15,692,387
Current Liabilities			
Trade and bills payables	27	**2,194,487**	4,163,401
Receipts in advance from customers		**1,383,572**	1,149,822
Other payables		**554,231**	676,082
Derivative financial instruments	28	**–**	199,204
Tax liabilities		**139,803**	320,511
Convertible loan notes	28	**–**	587,166
Borrowings – due within one year	29	**3,767,871**	7,536,557
		8,039,964	14,632,743
Net Current Asset		**2,251,752**	1,059,644
Total Assets less Current Liabilities		**17,251,187**	15,492,337

Consolidated Statement of Financial Position

At 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Capital and Reserves			
Issued equity	*31*	**8,248,928**	8,233,245
Reserves		**3,903,010**	5,718,344
Equity attributable to owners of the Company		**12,151,938**	13,951,589
Minority interests		**383,100**	418,776
Total Equity		**12,535,038**	14,370,365
Non-current Liabilities			
Convertible loan notes	*28*	**626,240**	–
Derivative financial instruments	*28*	**149,175**	–
Borrowings – due after one year	*29*	**3,800,929**	983,362
Deferred income		**71,255**	33,267
Deferred tax liabilities	*30*	**68,550**	105,343
		4,716,149	1,121,972
		17,251,187	15,492,337

The consolidated financial statements on pages 87 to 179 were approved and authorized for issue by the Board of Directors on 18 March 2010 and are signed on its behalf by:

Liu De Shu
Director

De Ke Ping
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Issued equity RMB'000	Merger reserve RMB'000 (note a)	Capital reserve RMB'000	Statutory reserve RMB'000 (note b)	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2008	3,078,496	255,531	332,115	384,071	585,877	12,074	(301,296)	3,160,974	7,507,842	254,940	7,762,782
Profit for the year	–	–	–	–	–	–	–	1,912,555	1,912,555	(4,748)	1,907,807
Exchange differences arising on translation	–	–	–	–	–	–	(77,156)	–	(77,156)	–	(77,156)
Change in fair value of available-for-sale investments	–	–	–	–	(616,000)	–	–	–	(616,000)	–	(616,000)
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments	–	–	–	–	(62,593)	–	–	–	(62,593)	–	(62,593)
Income tax relating to components of other comprehensive income	–	–	–	–	149,972	–	–	–	149,972	–	149,972
Total comprehensive (loss) income for the year	–	–	–	–	(528,621)	–	(77,156)	1,912,555	1,306,778	(4,748)	1,302,030
Deemed distribution *(Note 42(d))*	–	–	(56,384)	–	–	–	–	–	(56,384)	–	(56,384)
Acquisition of subsidiaries *(Note 42)*	–	–	–	–	–	–	–	–	–	159,327	159,327
Capital contribution from a minority shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	36,722	36,722
Disposal of a subsidiary	–	–	(180)	–	–	–	–	–	(180)	(9,465)	(9,645)
Dividends paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	(18,000)	(18,000)
Deemed contribution from ultimate holding company *(Note 18)*	–	–	210,000	–	–	–	–	–	210,000	–	210,000
Exercises of share options	14,563	–	–	–	–	(3,108)	–	–	11,455	–	11,455
Recognition of equity-settled share-based payment	–	–	–	–	–	3,876	–	–	3,876	–	3,876
Forfeiture of share options	–	–	–	–	–	(970)	–	970	–	–	–
Dividends paid	–	–	–	–	–	–	–	(171,984)	(171,984)	–	(171,984)
Placement of new shares	4,660,200	–	–	–	–	–	–	–	4,660,200	–	4,660,200
Shares issued upon conversion of convertible loan notes	479,986	–	–	–	–	–	–	–	479,986	–	479,986
At 31 December 2008	8,233,245	255,531	485,551	384,071	57,256	11,872	(378,452)	4,902,515	13,951,589	418,776	14,370,365

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Issued equity	Merger reserve	Capital reserve	Statutory reserve	Investment revaluation reserve	Share option reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(note a)		*(note b)*							
At 31 December 2008	8,233,245	255,531	485,551	384,071	57,256	11,872	(378,452)	4,902,515	13,951,589	418,776	14,370,365
Loss for the year	–	–	–	–	–	–	–	(1,443,813)	(1,443,813)	(22,156)	(1,465,969)
Exchange differences arising on translation	–	–	–	–	–	–	(13,618)	–	(13,618)	–	(13,618)
Change in fair value of available-for-sale investments	–	–	–	–	389,877	–	–	–	389,877	–	389,877
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments	–	–	–	–	(491,388)	–	–	–	(491,388)	–	(491,388)
Income tax relating to components of other comprehensive income	–	–	–	–	30,170	–	–	–	30,170	–	30,170
Total comprehensive loss for the year	–	–	–	–	(71,341)	–	(13,618)	(1,443,813)	(1,528,772)	(22,156)	(1,550,928)
Liquidation of a subsidiary	–	–	–	–	–	–	–	–	–	(11,617)	(11,617)
Dividends paid to minority shareholders of a subsidiary	–	–	–	–	–	–	–	–	–	(1,903)	(1,903)
Exercises of share options	15,683	–	–	–	–	(3,350)	–	–	12,333	–	12,333
Recognition of equity-settled share-based payment	–	–	–	–	–	3,700	–	–	3,700	–	3,700
Forfeiture of share options	–	–	–	–	–	(597)	–	597	–	–	–
Dividends paid	–	–	–	–	–	–	–	(286,912)	(286,912)	–	(286,912)
At 31 December 2009	8,248,928	255,531	485,551	384,071	(14,085)	11,625	(392,070)	3,172,387	12,151,938	383,100	12,535,038

Notes:

(a) Merger reserve comprises the difference between the nominal value of shares of the subsidiaries acquired and the nominal value of shares issued by the holding company as consideration for the restructuring transactions in previous years.

(b) 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 appropriate 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 used to increase the paid-in capital of respective entity. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC subsidiaries.

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	2009 **RMB'000**	2008 RMB'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(2,149,096)**	2,084,237
Adjustments for		
Share of results of jointly controlled entities	**57,545**	(18,311)
Release of prepaid lease payments	**30,276**	14,827
Gain on disposal of available-for-sale investments	**(491,388)**	(62,593)
Depreciation of property, plant and equipment	**244,264**	167,945
Loss on disposal of property, plant and equipment	**399**	1,191
Share of results of associates	**(250,322)**	(104,138)
Interest income	**(4,175)**	(32,734)
Finance costs	**451,418**	294,885
Dividend income from available-for-sale investments	**(9,976)**	(7,527)
Discount on acquisition of a subsidiary	**–**	(214,152)
Gain on liquidation/disposal of subsidiaries	**(4)**	(419)
Gain on debt restructuring	**(81,139)**	–
Gain on disposal of prepaid lease payments	**–**	(9,512)
Impairment losses and allowance provided on receivables	**12,276**	129
Gain on settlement of convertible loan notes	**–**	(2,440)
Gain on deemed partial disposal of equity interest in a subsidiary	**–**	(17,438)
Fair value changes in derivative financial instruments	**(49,712)**	(163,160)
Write-down of inventories	**760,102**	484,923
Amortization of other long-term assets	**15,150**	4,922
Recognition of share-based payment expenses	**3,700**	3,876
Deferred income released	**(5,684)**	(2,939)
Operating cash flows before movements in working capital	**(1,466,366)**	2,421,572
Decrease (increase) in inventories	**4,980,640**	(5,438,099)
(Increase) decrease in trade and bills receivables	**(550,495)**	1,091,485
Decrease in advance payments and other receivables	**242,078**	472,701
Increase in deferred income	**43,672**	27,408
(Decrease) increase in trade and bills payables	**(1,699,476)**	1,544,259
Increase (decrease) in receipts in advance and other payables	**160,869**	(1,432,474)
Decrease in amount due from ultimate holding company	**–**	7,589
Cash generated from (used in) operations	**1,710,922**	(1,305,559)
Income tax paid	**(210,257)**	(522,578)
NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES	**1,500,665**	(1,828,137)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES			
Additions of prepaid lease payments		–	(9,088)
Acquisitions of associates		**(16,729)**	(4,897,433)
Payments for acquisitions of property, plant and equipment		**(480,352)**	(631,801)
Acquisitions of subsidiaries	42	–	(592,816)
Purchases of available-for-sale investments		–	(27,460)
Acquisitions of other long-term assets		**(12,522)**	(24,747)
Additional investments in jointly controlled entities		–	(181,660)
Dividends received from available-for-sale investments		**9,976**	7,527
Dividends received from jointly controlled entities		**146**	–
Dividends received from associates		**31,034**	170,289
Proceeds from disposals of prepaid lease payments		–	11,485
Interest received		**4,175**	32,734
Liquidation/disposal of subsidiaries	43	**(413)**	13,900
Proceeds from disposals of available-for-sale investments		**707,309**	88,771
Proceeds from disposals of property, plant and equipment		**1,522**	44,729
Increase in pledged bank deposits		**(14,971)**	(449)
NET CASH GENERATED FROM (USED IN) INVESTING ACTIVITIES		**229,175**	(5,996,019)
FINANCING ACTIVITIES			
Interest paid		**(462,833)**	(286,966)
Net proceeds from issuance of shares		–	4,660,200
Proceeds from exercises of options		**12,333**	11,455
Proceeds from borrowings, net of issuance costs		**26,912,200**	11,024,012
Repayments of borrowings		**(27,863,319)**	(7,341,117)
Repayment of convertible loan notes		–	(13,266)
Dividends paid		**(286,912)**	(171,984)
Dividends paid to minority shareholders of a subsidiary		**(1,903)**	(18,000)
NET CASH (USED IN) GENERATED FROM FINANCING ACTIVITIES		**(1,690,434)**	7,864,334
NET INCREASE IN CASH AND CASH EQUIVALENTS		**39,406**	40,178
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**160,302**	115,311
Effect of foreign exchange rate changes		**(9,124)**	4,813
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		**190,584**	160,302

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL

Sinofert Holdings Limited (the "Company", together with its subsidiaries hereinafter collectively referred as the "Group") is a limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent is Sinochem Hong Kong (Group) Company Limited (established in Hong Kong) and its ultimate holding company is Sinochem Group (previously known as a "Sinochem Corporation", a company established in the People's Republic of 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 principal activity of the Company is investment holding. The Group mainly engaged in manufacturing and selling of fertilizers and related products. Details of the Company's subsidiaries are set out in Note 39.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The adoption of the new and revised HKFRSs has no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14 *Segment Reporting* (see Note 5).

Improving Disclosures about Financial Instruments
(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs issued in 2008[1]
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009[2]
HKAS 24 (Revised)	Related Party Disclosures[6]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
HKAS 32 (Amendment)	Classification of Right Issues[4]
HKAS 39 (Amendment)	Eligible Hedged Items[1]
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[5]
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters[5]
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
HKFRS 3 (Revised)	Business Combinations[1]
HKFRS 9	Financial Instruments[7]
HK (IFRIC) – Int14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
HK (IFRIC) – Int 17	Distributions of Non-cash Assets to Owners[1]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2010
4 Effective for annual periods beginning on or after 1 February 2010
5 Effective for annual periods beginning on or after 1 July 2010
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 January 2013

The adoption of HKFRS 3 (Revised) might affect the Group's accounting for business combination occurring on or after 1 January 2010.

HKAS 27 (Revised) might affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company are currently assessing the impacts of application of the other new and revised standards, amendments or interpretations will have on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "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 profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

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 interests 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

Non-common control 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 exceed 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.

Combinations under common control of ultimate holding company

Business combinations under common control of the ultimate holding company are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations". In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Combinations under common control of ultimate holding company (Continued)

Profit or loss includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous reporting date or when they first came under common control, whichever is shorter.

Business combination achieved in stages

When a business combination involves more than one exchange transaction, each exchange transaction is treated separately by the Group, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the investment revaluation reserve.

Before qualifying as a business combination, the investment qualified as an investment in a jointly controlled entity and was accounted for in accordance with HKAS31 Interests in Joint Ventures using the equity method. The fair values of the investee's identifiable net assets at the date of each earlier exchange transaction have been previously determined throughout the application of equity method.

Goodwill

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

Capitalized goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

For the purposes of impairment testing, goodwill arising from an acquisition 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 recognized directly in profit or loss. 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.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or jointly control over those policies.

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

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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 recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits or losses are eliminated to the extent of the Group's interest in the associate except to the extent that unrealized losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognized.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position 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 recognized 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 recognized immediately in profit or loss.

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

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 recognized 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 recognized when the title of goods has passed to the customer. Retail sales are usually settled in cash.

Service income is recognized when services are rendered.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Sales of goods (Continued)

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

Dividend income from investments including available-for-sales investments is recognized 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.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized 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 profit or loss in the year in which the item is derecognized.

Other long-term assets

Activators held for use in the production of goods are stated at cost less subsequent accumulated amortization and accumulated impairment losses.

Amortization is provided using the straight-line method.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 profit or loss over the term of relevant land leases.

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and accounted for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases except for those that are classified and accounted for as investment properties under the fair value model.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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 derecognized 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 profit or loss in the year in which the item is derecognized.

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 recognized in profit or loss 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 recognized as a reduction of rental expense over the lease term on a straight-line basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the re-translation of monetary items, are recognized 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 recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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. Renminbi) at the rate of exchange prevailing at the end of reporting period, 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 recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized 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 end of the reporting period. Exchange differences arising are recognized in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for 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 recognized in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related cost for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consoliated statement of financial position and transferred to profit or loss over the useful lives of the assets. Grants related to expense items are recognized in the same period as those expenses are charged to the profit or loss and are reported separately as other income in profit or loss.

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 profit or loss 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 end of the reporting period.

Deferred tax is recognized 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. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 recognized for taxable temporary differences arising on investments in subsidiaries, associates 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. Deferred tax assets arising from deductible temporary difference associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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 realized, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position 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 recognized 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 recognized and derecognized 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest rate basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

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. Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale 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 the end of each reporting period 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 the end of each reporting period. 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 negatively affected.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method (Continued)

Impairment of financial assets (Continued)

For an available-for-sale 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 credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized 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 recognized 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Effective interest method (Continued)

Impairment of financial assets (Continued)

For financial assets measured at amortized 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 loss was recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in investment revaluation reserve.

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.

The effective interest method is a method of calculating the amortized 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 (including all fees, points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

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 of cash or another financial asset for a 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 amortized cost of the host debt instrument.

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

In subsequent periods, the liability component of the convertible loan notes is carried at amortized cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognized 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 amortized over the period of the convertible loan notes using the effective interest method.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and borrowings are subsequently measured at amortized 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized 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 recognized in profit or loss.

Derecognition

Financial assets are derecognized 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 recognized directly in other comprehensive income is recognized in profit or loss.

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

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above) (Continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately 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 the end of each reporting period, 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 recognized in profit or loss, with a corresponding adjustment to share option reserve.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Impairment of inventories

Determining whether inventories are impaired requires an estimation of its net realizable value. Net realizable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Directors of the Company reassess these estimates at the end of each reporting period. As at 31 December 2009, the carrying amount of inventories is RMB5,828,901,000 (2008: RMB11,569,643,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of goodwill

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. As at 31 December 2009, the carrying amount of goodwill is RMB579,258,000 (2008: RMB579,757,000). Details of the recoverable amount calculation are disclosed in Note 23.

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 subsequently at the end of each reporting period.

The fair values of derivative financial instruments are subject to the limitation of the binomial option pricing model which requires input of certain assumptions, including the risk free rate and volatility of share price. Changes in the assumptions which are subjective in nature could materially affect the fair value estimate.

5. SEGMENT INFORMATION

The Group has adopted HKFRS 8, *Operating Segments*, effective from 1 January 2009. HKFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (HKAS 14, Segment Reporting) required an entity to identify two sets of segments (business and geographical), using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, the Group's primary reporting format was based on business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment profit or loss.

The Group's operating segments under HKFRS 8 are as follows:

Sourcing and distribution	–	sourcing and distribution of fertilizers and agricultural related products
Production	–	production and sale of fertilizers

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION (Continued)

Information regarding to the above segment is reported below.

(a) Segment revenue and results and segment assets and liabilities

2009

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue				
External sales	24,118,030	2,892,679	–	27,010,709
Inter-segment sales	254,580	3,144,899	(3,399,479)	–
Total	24,372,610	6,037,578	(3,399,479)	27,010,709
Segment loss	(2,536,643)	(31,704)		(2,568,347)
Unallocated expenses				(78,987)
Unallocated incomes				215,779
Finance costs				(451,418)
Changes in fair value of derivatives				49,712
Gain on disposal of available-for-sale investments				491,388
Share of results of jointly controlled entities				(57,545)
Share of results of associates				250,322
Loss before tax				(2,149,096)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results and segment assets and liabilities (Continued)

2009 (Continued)

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Total *RMB'000*
ASSETS			
Segment assets	8,721,302	7,509,100	16,230,402
Interests in associates			7,063,857
Interests in jointly controlled entities			729,008
Available-for-sale investments			176,934
Deferred tax assets			895,316
Other unallocated assets			195,634
Consolidated total assets			25,291,151
LIABILITIES			
Segment liabilities	3,131,426	1,075,854	4,207,280
Deferred tax liabilities			68,550
Other unallocated liabilities			8,480,283
Consolidated total liabilities			12,756,113

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results and segment assets and liabilities (Continued)

2008

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Revenue				
External sales	42,021,100	3,371,785	–	45,392,885
Inter-segment sales	14,231,582	2,754,886	(16,986,468)	–
Total	56,252,682	6,126,671	(16,986,468)	45,392,885
Segment profit (loss)	1,900,861	(241,117)		1,659,744
Unallocated expenses				(60,327)
Unallocated incomes				277,504
Finance costs				(294,885)
Changes in fair value of derivatives				163,160
Share of results of jointly controlled entities				18,311
Share of results of associates				104,138
Gain on cash settlement of convertible loan notes				2,440
Discount on acquisition of a subsidiary				214,152
Profit before tax				2,084,237

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results and segment assets and liabilities (Continued)

2008 (Continued)

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Total *RMB'000*
ASSETS			
Segment assets	13,416,510	7,949,767	21,366,277
Interests in associates			7,063,039
Interests in jointly controlled entities			792,921
Available-for-sale investments			501,710
Deferred tax assets			189,265
Other unallocated assets			211,868
Consolidated total assets			30,125,080
LIABILITIES			
Segment liabilities	3,937,020	2,073,215	6,010,235
Deferred tax liabilities			105,343
Other unallocated liabilities			9,639,137
Consolidated total liabilities			15,754,715

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment profit (loss) represents the profit earned by or loss from each segment without unallocated expenses and incomes, share of results of associates and jointly controlled entities, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at prevailing market rates.

For the purposes of monitoring segment performances and allocating resources between segments:

- All assets are allocated to reportable segments other than corporate assets, investment related assets and deferred tax assets; and
- All liabilities are allocated to reportable segments other than corporate liabilities, current and deferred tax liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION (Continued)

(b) Other segment information

2009

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Corporate unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit (loss) or segment assets:				
Additions to non-current assets	**13,848**	**530,457**	**26**	**544,331**
(Reversal of) impairment losses and allowance provided on receivables	**(225)**	**12,501**	**–**	**12,276**
Depreciation and amortization	**7,755**	**250,607**	**1,052**	**259,414**
Release of prepaid lease payments	**–**	**30,276**	**–**	**30,276**
Write-down of inventories	**758,022**	**2,080**	**–**	**760,102**
Loss (gain) on disposal of property, plant and equipment	**401**	**(2)**	**–**	**399**
Amounts regularly provided to the chief operating decision maker but not included in the measures of segment profit (loss) or segment assets:				
Share of results in associates	**–**	**250,322**	**–**	**250,322**
Share of results in jointly controlled entities	**–**	**(57,545)**	**–**	**(57,545)**
Interests in associates	**–**	**7,063,857**	**–**	**7,063,857**
Interests in jointly controlled entities	**–**	**729,008**	**–**	**729,008**

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION (Continued)

(b) Other segment information (Continued)

2008

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Corporate unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit (loss) or segment assets:				
Additions to non-current assets	10,780	4,052,224	7	4,063,011
Impairment losses and allowance provided on receivables	–	129	–	129
Depreciation and amortization	6,217	165,589	1,061	172,867
Release of prepaid lease payments	–	14,827	–	14,827
Write-down of inventories	378,600	106,323	–	484,923
Loss on disposal of property, plant and equipment	46	1,145	–	1,191
Amounts regularly provided to the chief operating decision maker but not included in the measures of segment profit (loss) or segment assets:				
Share of results in associates	–	104,138	–	104,138
Share of results in jointly controlled entities	–	18,311	–	18,311
Interests in associates	–	7,063,039	–	7,063,039
Interests in jointly controlled entities	–	792,921	–	792,921

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

5. SEGMENT INFORMATION (Continued)

(c) Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2009	2008
	RMB'000	*RMB'000*
Potash fertilizers	**6,750,208**	16,124,676
Nitrogen fertilizers	**8,254,933**	10,727,916
Compound fertilizers	**4,716,023**	7,557,203
Phosphate fertilizers	**6,511,440**	8,565,045
Others	**778,105**	2,418,045
Total	**27,010,709**	45,392,885

(d) Geographical information

The Group's operations are mainly located in the PRC mainland and Macao.

The Group's revenue from its operations from external customers based on their place of incorporation/establishment and information about its non-current assets by geographical location of the assets are detailed below.

	Revenue from external customers		**Non-current assets**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC	**26,450,172**	44,160,555	**13,925,838**	13,738,877
Others	**560,537**	1,232,330	**1,347**	2,841
	27,010,709	45,392,885	**13,927,185**	13,741,718

Non-current assets exclude financial instruments and deferred tax assets.

(e) Information about major customers

No revenue from a single external customer amount to 10% or more of the Group's revenue.

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For the year ended 31 December 2009

6. OTHER INCOMES AND GAINS

	2009 RMB'000	2008 RMB'000
Rental income	**3,165**	2,017
Dividend income from available-for-sale investments	**9,976**	7,527
Interest income from bank deposits	**4,175**	32,734
Government grants *(note a)*	**104,142**	58,917
Exchange gain	**–**	31,325
Gain on disposal of available-for-sale investments	**491,388**	62,593
Gain on disposal of prepaid lease payments	**–**	9,512
Release of deferred income	**5,684**	2,939
Compensation received	**6,493**	11,512
Gain on debt restructuring *(note b)*	**81,139**	–
Sales of scrapped materials	**53,109**	48,028
Others	**12,252**	14,831
	771,523	281,935

Notes:

a: Government grants mainly comprised payments from the government to support the development of the business of the group entities in accordance with applicable regulations in the PRC.

b: The gain on debt restructuring mainly comprises a waiver of interest payables to a bank upon full settlement of the principal outstanding.

7. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Interests on		
– borrowings wholly repayable within five years	**441,230**	282,652
– borrowings not wholly repayable within five years	**21,603**	4,314
– convertible loan notes	**40,042**	40,164
Total finance costs	**502,875**	327,130
Less: amounts capitalized	**(51,457)**	(32,245)
	451,418	294,885

Finance costs capitalized during the year are calculated by applying a capitalization rate of 5.92% (2008: 7.10%) per annum to expenditure on qualifying assets.

8. INCOME TAX CREDIT (EXPENSE)

	2009	2008
	RMB'000	*RMB'000*
Current tax		
Hong Kong Profits Tax	**(1,960)**	(28,670)
PRC enterprise income tax	**(27,587)**	(324,825)
	(29,547)	(353,495)
Deferred tax *(Note 30)*		
Current year	**712,674**	177,065
	683,127	(176,430)

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2008: 16.5%) of the estimated assessable profit for the year.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

According to the policy for the development of the western region of the PRC promulgated by the State Council, Sinochem Chongqing Fuling Chemical Fertilizer Company Limited ("Sinochem Fuling") is entitled to a preferential income tax treatment of 15% 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. It is expected that Sinochem Fuling will continue to meet such criteria for the preferential tax treatment for 2010.

According to the EIT Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 10% for foreign investors. The Company has determined that those profits earned by PRC subsidiaries will not be distributed overseas in the foreseeable future.

No provision for income tax has been made for subsidiaries of the Company incorporated in the British Virgin Islands (the "BVI") and Macao as those subsidiaries are exempted from income tax.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. INCOME TAX CREDIT (EXPENSE) (Continued)

A statement of reconciliation of taxation is as follows:

	2009 *RMB'000*	2008 *RMB'000*
(Loss) profit before tax	**(2,149,096)**	2,084,237
Tax calculated at the main applicable tax rate of 25%	**537,274**	(521,059)
Tax effect of expenses not deductible for tax purposes	**(14,312)**	(789)
Tax effect of income not taxable for tax purposes	**4,358**	118,411
Tax effect of share of results of jointly controlled entities	**(14,386)**	4,578
Tax effect of share of results of associates	**62,581**	26,035
Effect of different income tax rates	**116,397**	224,992
Effect of tax loss not recognized	**(8,457)**	(30,067)
Others	**(328)**	1,469
Income tax credit (expense) for the year	**683,127**	(176,430)

9. OTHER COMPREHENSIVE INCOME (LOSS)

Tax effects relating to other comprehensive income (loss) are as follows:

	2009			2008		
	Before-tax amount *RMB'000*	**Tax (expense) benefit** *RMB'000*	**Net-of-tax amount** *RMB'000*	Before-tax amount *RMB'000*	Tax benefit *RMB'000*	Net-of-tax amount *RMB'000*
Changes in fair value of available-for-sale investments	**389,877**	**(81,425)**	**308,452**	(616,000)	134,324	(481,676)
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available- for-sale investments	**(491,388)**	**111,595**	**(379,793)**	(62,593)	15,648	(46,945)
	(101,511)	**30,170**	**(71,341)**	(678,593)	149,972	(528,621)

Notes to the Consolidated Financial Statements

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10. (LOSS) PROFIT FOR THE YEAR

	2009	2008
	RMB'000	*RMB'000*
(Loss) profit for the year has been arrived at after charging (crediting):		
Directors' emoluments *(see Note 11)*	**10,215**	11,825
Other staff benefits *(note a)*	**379,464**	322,949
Total employee benefits expenses	**389,679**	334,774
Depreciation of property, plant and equipment	**244,264**	167,945
Release of prepaid lease payments	**30,276**	14,827
Amortization of other long-term assets	**15,150**	4,922
Auditors' remuneration	**5,274**	11,211
Minimum lease payments under operating lease in respect of properties *(note d)*	**132,306**	95,262
Direct operating expenses arising from investment properties that generate rental income	**450**	444
Provision for allowance on trade receivables	**3,384**	129
Write-down of other receivables	**8,892**	–
Loss on disposal of property, plant and equipment	**399**	1,191
Gain on disposal of prepaid lease payments	**–**	(9,512)
Write-down of inventories *(note b)*	**760,102**	484,923
Donation to water supply fund *(note c)*	**–**	100,000
Net foreign exchange losses, included in other expenses	**39,538**	–

Note a: Included in other staff benefits are share-based payments and contribution to retirement benefits scheme for the year ended 31 December 2009 of RMB2,824,000 (2008: RMB3,876,000) and RMB24,389,000 (2008: RMB29,201,000) respectively. The total contribution to retirement benefits scheme for the year ended 31 December 2009 is RMB24,415,000 (2008: RMB29,234,000).

Note b: During the year, there was a significant decrease in the net realizable value of fertilizers due to the decrease of market price. Write-down of RMB760,102,000 (2008: RMB484,923,000) is related to inventories on hand as at reporting period end which has been recognized in other expenses.

Note c: In 2008, the Company's PRC subsidiary has made RMB100,000,000 donation to the local water supply fund in order to support the ongoing local environmental protection project, which is included in other expenses.

Note d: Minimum lease payments under operating lease in respect to storage facilities and office space.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. DIRECTORS' REMUNERATION

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

	2009					
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* (Note)	Retirement benefits scheme contribution *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
Mr. Liu De Shu	–	–	–	–	180	180
Mr. Song Yu Qing *(resigned on 16 November 2009)*	–	–	–	–	111	111
Mr. Du Ke Ping	–	1,949	2,400	26	188	4,563
Mr. Harry Yang	–	1,943	1,712	–	179	3,834
Dr. Chen Guo Gang	–	–	–	–	111	111
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Wade Fetzer III	–	–	–	–	107	107
Mr. Ko Ming Tung, Edward	412	–	–	–	–	412
Dr. Tang Tin Sek	412	–	–	–	–	412
Mr. Tse Hau Yin Aloysius	485	–	–	–	–	485
	1,309	3,892	4,112	26	876	10,215

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. DIRECTORS' REMUNERATION (Continued)

	2008					
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(Note)*	Retirement benefits scheme contribution *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
Mr. Liu De Shu	–	–	–	–	221	221
Mr. Song Yu Qing	–	–	–	–	152	152
Mr. Du Ke Ping	–	1,565	4,171	33	385	6,154
Mr. Harry Yang	–	1,850	1,706	–	198	3,754
Dr. Chen Guo Gang	–	–	–	–	152	152
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Wade Fetzer III	–	–	–	–	71	71
Mr. Ko Ming Tung, Edward	416	–	–	–	–	416
Dr. Tang Tin Sek	416	–	–	–	–	416
Mr. Tse Hau Yin Aloysius	489	–	–	–	–	489
	1,321	3,415	5,877	33	1,179	11,825

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

No director waived any emolument in the years ended 31 December 2009 and 2008.

Notes to the Consolidated Financial Statements

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12. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, two (2008: two) were directors of the Company, whose emoluments are disclosed in note 11 above. The emoluments of the remaining three (2008: three) individuals were as follows:

	2009 *RMB'000*	2008 *RMB'000*
Salaries and other benefits	**1,729**	1,759
Performance related incentive payments	**2,189**	4,234
Retirement benefits scheme contributions	**78**	98
Share-based payments	**280**	359
	4,276	6,450

Their emoluments were within the following bands:

	Number of employee(s)	
	2009	2008
RMB1,000,001 to RMB1,500,000	**3**	–
RMB1,500,001 to RMB2,000,000	**–**	2
RMB3,000,001 to RMB3,500,000	**–**	1

13. DIVIDENDS

	2009 *RMB'000*	2008 *RMB'000*
Dividends recognized as distribution during the year:		
Final dividend for 2008 of HK4.64 cents, equivalent to RMB0.0409 (2008: 2007 final dividends of HK2.76 cents, equivalent to RMB0.0272) per share	**286,912**	171,984

The directors did not propose the payment of final dividend for the year ended 31 December 2009 (2008: HK4.64 cents, equivalent to RMB0.0409 per share, totalling RMB286,912,000).

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14. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is based on the following data:

	2009	2008
	RMB'000	*RMB'000*
(Loss) earnings for the purpose of basic (loss) earnings per share	**(1,443,813)**	1,912,555
Effect of dilutive potential ordinary shares:		
Interest expense on convertible loan notes	**–**	40,164
Changes in fair value of derivatives	**–**	(163,160)
Gain on settlement of convertible loan notes	**–**	(2,440)
(Loss) earnings for the purpose of diluted (loss) earnings per share	**(1,443,813)**	1,787,119

	'000 shares	*'000 shares*
Number of shares		
Weighted average number of shares for the purpose of basic (loss) earnings per share	**7,013,508**	6,983,421
Effect of dilutive potential shares		
– share options	**–**	14,160
– convertible loan notes	**–**	178,454
Weighted average number of shares for the purpose of diluted (loss) earnings per share	**7,013,508**	7,176,035

The computation of diluted loss per share for the year ended 31 December 2009 does not assume the exercise of the outstanding share options and the conversion of the outstanding convertible loan notes as the effects of such exercise and conversion would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

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15. INVESTMENT PROPERTIES

	At 1 January 2008 and 31 December 2008 and 2009 *RMB'000*
Fair value	**14,600**

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

The investment properties of the Group are located in the PRC under short-term leases.

The fair value of the Group's investment properties at 31 December 2009 and 2008 have been determined on the basis of a valuation carried out on the respective dates by Jones Lang LaSalle Sallmanns Limited, an independent professionally qualified valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the similar locations and conditions.

Notes to the Consolidated Financial Statements

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16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture & fixtures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
At 1 January 2008	428,857	564,592	34,461	111,806	328,327	1,468,043
Exchange realignment	–	(128)	(97)	(247)	–	(472)
Eliminated on disposals	(1,447)	(55,218)	(2,067)	(1,623)	(472)	(60,827)
Additions	9,357	38,133	8,787	11,816	577,594	645,687
Additions on acquisition of subsidiaries	892,281	1,394,258	13,892	3,834	620,639	2,924,904
Transfer from construction in progress	34,440	45,118	–	5,821	(85,379)	–
Disposal of a subsidiary	–	(450)	–	–	–	(450)
As at 31 December 2008	1,363,488	1,986,305	54,976	131,407	1,440,709	4,976,885
Exchange realignment	–	1,312	(7)	(1,322)	–	(17)
Eliminated on disposals	–	(2,574)	(2,609)	(300)	–	(5,483)
Additions	5,222	28,726	17,241	5,894	603,436	660,519
Transfer from construction in progress	20,072	394,812	–	21,858	(436,742)	–
As at 31 December 2009	**1,388,782**	**2,408,581**	**69,601**	**157,537**	**1,607,403**	**5,631,904**
Accumulated depreciations						
At 1 January 2008	40,607	133,499	12,411	56,598	–	243,115
Exchange realignment	–	(62)	(29)	371	–	280
Charge for the year	40,505	103,309	5,968	18,163	–	167,945
Eliminated on disposal of a subsidiary	–	(81)	–	–	–	(81)
Eliminated on disposals	(1,254)	(9,891)	(1,743)	(2,019)	–	(14,907)
As at 31 December 2008	79,858	226,774	16,607	73,113	–	396,352
Exchange realignment	–	699	(6)	(706)	–	(13)
Charge for the year	51,293	165,272	8,202	19,497	–	244,264
Eliminated on disposals	–	(1,555)	(1,730)	(277)	–	(3,562)
As at 31 December 2009	**131,151**	**391,190**	**23,073**	**91,627**	**–**	**637,041**
Carrying values						
As at 31 December 2009	**1,257,631**	**2,017,391**	**46,528**	**65,910**	**1,607,403**	**4,994,863**
As at 31 December 2008	1,283,630	1,759,531	38,369	58,294	1,440,709	4,580,533

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16. PROPERTY, PLANT AND EQUIPMENT (Continued)

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	10-14 years
Motor vehicles	8 years
Furniture and fixtures	4 years

17. PREPAID LEASE PAYMENTS

	2009	2008
	RMB'000	*RMB'000*
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
Long-term leases	**2,984**	3,038
Medium-term leases	**505,601**	535,823
	508,585	538,861
Analysis for reporting purposes as:		
Current assets	**30,276**	26,621
Non-current assets	**478,309**	512,240
	508,585	538,861

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18. INTERESTS IN ASSOCIATES

	2009	2008
	RMB'000	*RMB'000*
Cost of investment in associates		
Listed in the PRC	**6,778,901**	6,778,901
Unlisted	**198,795**	180,000
Share of profits, net of dividends	**86,161**	104,138
	7,063,857	7,063,039
Fair value of listed investments	**8,087,312**	8,092,988

As at 31 December 2009 and 2008, the Group had interests in the following associates:

Name of entity	Form of business structure	Place/ country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Group	Proportion of voting power held	Principal activity
Qinghai Salt Lake Potash Co., Ltd. 青海鹽湖鉀肥股份有限公司	Incorporated	PRC	PRC	Ordinary	18.49%	18.49%	Production and sales of fertilizers
Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. 貴州鑫新工農貿易有限公司	Incorporated	PRC	PRC	Ordinary	30%	30%	Production and sales of phosphorous
Qinghai Ganghua Logistics Company Limited 青島港華物流有限公司 *(note)*	Incorporated	PRC	PRC	Ordinary	25%	25%	Logistics services
Tianjin Beihai Industrial Company Limited 天津北海實業有限公司 *(note)*	Incorporated	PRC	PRC	Ordinary	30.9%	30.9%	Logistics services
Yara Sinochem Environment Protection (Qingdao) Co., Ltd. 雅苒中化環保（青島）有限公司 *(note)*	Incorporated	PRC	PRC	Ordinary	40%	40%	Production and sales of fertilizers

Note: Newly acquired/established associates in 2009.

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18. INTERESTS IN ASSOCIATES (Continued)

The summarized financial information in respect of the Group's associates is set out below:

	2009	2008
	RMB'000	*RMB'000*
Total assets	**9,772,582**	7,501,177
Total liabilities	**(4,564,725)**	(3,071,227)
Net assets	**5,207,857**	4,429,950
Group's share of net assets of associates	**1,018,119**	1,017,301
Revenue	**4,430,111**	3,457,676
Profit for the year	**1,369,370**	537,447
Group's share of results of associates for the year	**250,322**	104,138

Included in the cost of investments in associates is goodwill of approximately RMB6,046 million recognized from acquisitions of associates in 2008. The movement of the goodwill is set out below:

	RMB'000
COST	
At 1 January 2008	–
Recognized from acquisitions	6,045,738
At 31 December 2008 and 2009	6,045,738

In 2008, the Group acquired 18.49% equity interest in Qinghai Salt Lake Potash Co., Ltd. ("Qinghai Salt Lake"), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, at a total cash consideration of RMB6,739 million from Sinochem Group. In the opinion of the directors of the Company, as the Group is the second largest shareholder of Qinghai Salt Lake and that the Group has the right to nominate two executive directors out of seven executive directors of Qinghai Salt Lake, the Group is able to exercise significant influence over the operations of Qinghai Salt Lake. Accordingly, such investment is accounted for as interest in an associate in the consolidated financial statements of the Group.

18. INTERESTS IN ASSOCIATES (Continued)

Pursuant to the share transfer agreement, the Group agrees to be bound by the terms of the lock-up undertaking, under which the shares acquired shall not be traded or transferred until 29 June 2010. With the consideration of the lock-up undertaking, the Group has evaluated the fair value of the equity interest by applying the Black-Scholes Model, with input based on management's estimates. The fair value of the equity interest is determined to be RMB6,949 million and the difference between the purchase price and the fair value recognized of RMB210 million is recorded as a deemed contribution in capital reserve.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009	2008
	RMB'000	*RMB'000*
Cost of unlisted investments in jointly controlled entities	**739,889**	739,889
Share of (losses) profits, net of dividends	**(10,881)**	53,032
	729,008	792,921

During 2008, a discount on acquisition of approximately RMB25,717,000 was recognized from the acquisition of Tianji Sinochem Gaoping Chemical Engineering Co., Ltd. ("Tianji Gaoping")

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

	2009	2008
	RMB'000	*RMB'000*
Financial position		
Non-current assets	**2,013,454**	2,025,523
Current assets	**1,024,490**	1,107,172
Non-current liabilities	**(713,409)**	(780,108)
Current liabilities	**(1,595,527)**	(1,559,666)
Net assets	**729,008**	792,921

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For the year ended 31 December 2009

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES (Continued)

	2009	2008
	RMB'000	*RMB'000*
Results for the year		
Income	**1,597,610**	2,085,039
Expenses	**1,674,088**	2,090,134

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

20. AVAILABLE-FOR-SALE INVESTMENTS

	2009	2008
	RMB'000	*RMB'000*
Available-for-sale investments comprise:		
Listed equity securities	**169,845**	492,554
Unlisted equity securities	**8,379**	10,446
Less: impairment losses	**(1,290)**	(1,290)
	176,934	501,710

At the end of the reporting period, all listed available-for-sale investments are stated at fair value determined by reference to the quoted market bid price from the relevant stock exchange.

The unlisted equity securities, representing investments in private entities, are measured at cost less impairment at the end of each reporting period, 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.

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21. OTHER LONG-TERM ASSETS

	Activators
	RMB'000
COST	
At 1 January 2008	–
Additions	24,747
Additions on acquisitions of subsidiaries	26,976
31 December 2008	51,723
Additions	12,522
At 31 December 2009	**64,245**
AMORTIZATION	
At 1 January 2008	–
Charge for the year	4,922
31 December 2008	4,922
Charge for the year	15,150
At 31 December 2009	**20,072**
CARRYING VALUES	
At 31 December 2009	**44,173**
At 31 December 2008	46,801

The activators have estimated useful lives ranging from 3 years to 10 years. The costs are amortized on a straight-line basis over their respective estimated useful lives.

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22. GOODWILL

	2009	2008
	RMB'000	*RMB'000*
COST AND CARRYING AMOUNTS		
At 1 January	**579,757**	333,829
Arising on acquisitions of subsidiaries *(Note 42(a))*	**–**	265,357
Exchange adjustments	**(499)**	(19,429)
At 31 December	**579,258**	579,757

Details on impairment testing on goodwill are disclosed in Note 23.

23. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill has been allocated to the cash generating units ("CGUs") of the related segments as follows:

	2009	2008
	RMB'000	*RMB'000*
Sourcing and distribution	**281,919**	282,367
Production		
– Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan")	**265,357**	265,357
– Others	**31,982**	32,033
	579,258	579,757

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 and expected changes to revenue and direct costs used in the cashflow forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market. The directors of the Company estimate discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specific relating to the CGUs. Cash flow forecasts of each CGU are derived from financial budgets of 2010 approved by the directors of the Company. The growth rates for 2011 and 2012 are based on the relevant CGUs past performance and management's expectation for the market development and for beyond 2012 are the expected GDP growth of the PRC economy.

Notes to the Consolidated Financial Statements

23. IMPAIRMENT TESTING ON GOODWILL (Continued)

The key assumptions used in the value in use calculation include:

		Production	
	Sourcing and distribution	**Sinochem Pingyuan**	**Others**
Discount rate	10.28%	10.58%	10.58%
Average growth rate for the first 2 years from 2011	20%	11.5%	20%
Steady growth rate for the following years	6.9%	6.7%	6.9%

The value in use calculated is higher than the carrying amount for each CGU, accordingly, no impairment of goodwill was recognized for the years ended 31 December 2009 and 2008.

24. INVENTORIES

	2009 *RMB'000*	2008 *RMB'000*
Fertilizer merchandise and finished goods	**5,289,927**	10,863,788
Raw materials	**508,453**	661,357
Work in progress	**18,706**	36,510
Consumables	**11,815**	7,988
	5,828,901	11,569,643

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25. TRADE AND BILLS RECEIVABLES

	2009	2008
	RMB'000	*RMB'000*
Trade receivables	**518,519**	528,001
Less: allowance for bad debts	**(4,207)**	(823)
	514,312	527,178
Bills receivables	**2,261,466**	1,701,489
Total trade and bills receivables	**2,775,778**	2,228,667

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 bad debts at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Within 90 days	**474,494**	517,669
91 days to 180 days	**5,299**	4,320
181 days to 360 days	**34,098**	1,494
Over 360 days	**421**	3,695
	514,312	527,178

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. In the opinion of the management of the Group, receivables that are neither past due nor impaired have the best credit quality.

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB39,818,000 (2008: RMB9,509,000) which are past due at the end of the reporting period for which the Group has not provided for allowance for bad debts as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 258 days (2008: 260 days).

25. TRADE AND BILLS RECEIVABLES (Continued)

The aged analysis of trade receivables which are past due but not impaired, is as follows:

	2009	2008
	RMB'000	*RMB'000*
91 days to 180 days	**5,299**	4,320
181 days to 360 days	**34,098**	1,494
Over 360 days	**421**	3,695
Total	**39,818**	9,509

The movement in the allowance for bad debts is as follows:

	2009	2008
	RMB'000	*RMB'000*
Balance at 1 January	**823**	694
Allowance provided for bad debts	**3,384**	129
Balance at 31 December	**4,207**	823

Regarding to the allowance for bad debts are individually impaired trade receivables with an aggregated balance of RMB4,207,000 (2008: RMB823,000) which have been past due for a prolonged period and the directors of the Company are of the opinion that these receivables are unrecoverable.

The following is an aged analysis of bills receivables, which are not past due at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Within 90 days	**1,429,528**	1,476,212
91 days to 180 days	**831,938**	225,277
	2,261,466	1,701,489

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For the year ended 31 December 2009

26. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits

The pledged deposits have been placed in designated banks as collaterals for short-term banking facilities granted to the Group. The deposits carry prevailing deposit rate of 0.72% (2008: 0.72%) per annum at 31 December 2009.

Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less, and carry prevailing deposit rates ranging from 0.81% to 1.71% (2008: 0.81% to 1.71%) 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 relevant entity to which they relate.

	2009	2008
	RMB'000	*RMB'000*
United States dollars ("US$")	**1,123**	454
Euro ("EUR")	**10,193**	–

27. TRADE AND BILLS PAYABLES

The following is an aged analysis of trade and bills payables at the end of the reporting period:

	2009	2008
	RMB'000	*RMB'000*
Within 90 days	**1,210,304**	3,705,685
91 days to 180 days	**711,786**	323,218
181 days to 360 days	**61,018**	112,482
Over 360 days	**211,379**	22,016
	2,194,487	4,163,401

28. 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 have not been called for redemption before 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. Pursuant to the applicable terms in the convertible loan notes agreement, the conversion price is adjusted to HK$3.69 on 6 June 2008 and further to HK$3.64 on 10 June 2009. Details of the latter are disclosed in the announcement dated 15 June 2009 published by the Company. According to the terms of the convertible loan notes, the Company has the option to pay the holder a cash amount 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 by the holder. 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 has 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 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 according to the convertible loan notes adjustments.

The convertible loan notes contain liability component stated at amortized cost and conversion option, and holders' redemption option and issuer's 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 (equivalent to approximately RMB29,614,000) are apportioned between the liability component and derivative component based on their relative fair values at the date of issue. An issue cost of HK$27,513,000 (equivalent to approximately RMB27,687,000) 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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28. CONVERTIBLE LOAN NOTES (Continued)

No redemption was demanded by the holders on 7 August 2009 and the Company has no intention to redeem the convertible loan notes within 1 year. Consequently, the liability component and derivative component are both classified as non-current liabilities as at 31 December 2009. The movement of the liability component and derivative component of the convertible loan notes for the year is set out as below:

	Liability component *RMB'000*	**Derivative component** *RMB'000*
As at 1 January 2008	853,603	615,549
Converted to ordinary shares	(257,670)	(222,316)
Cash settled	(8,379)	(7,327)
Interest charge	40,164	–
Changes in fair value	–	(163,160)
Exchange adjustment	(40,552)	(23,542)
As at 31 December 2008	587,166	199,204
Interest charge	40,042	–
Changes in fair value	–	(49,712)
Exchange adjustment	(968)	(317)
As at 31 December 2009	**626,240**	**149,175**

The fair value of the derivative component at 31 December 2009 is determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent professionally qualified valuer, using the applicable pricing model.

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29. BORROWINGS

	2009 RMB'000	2008 RMB'000
Bank loans, secured	**2,172,643**	346,841
Bank loans, unsecured	**2,919,422**	8,173,078
Bonds	**2,476,735**	–
	7,568,800	8,519,919

On 25 November 2009, a PRC subsidiary issued corporate bonds with an aggregate principal amount of RMB2.5 billion with a maturity of 10 years and a fixed interest rate of 5.00% per annum. The transaction costs of RMB23,265,000 directly attributable to issuance of the bonds have been deducted from the principal amount of the bonds. The repayment of the bonds is guaranteed by Sinochem Group.

	2009 RMB'000	2008 RMB'000
Carrying amount repayable:		
Within one year	**3,767,871**	7,536,557
More than one year, but not exceeding two years	**198,877**	281,365
More than two years, but not exceeding five years	**1,005,317**	571,997
Exceeding five years	**2,596,735**	130,000
	7,568,800	8,519,919
Less: Amounts due within one year shown under current liabilities	**(3,767,871)**	(7,536,557)
Amounts due after one year	**3,800,929**	983,362

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For the year ended 31 December 2009

29. BORROWINGS (Continued)

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

	2009	2008
	RMB'000	*RMB'000*
Fixed-rate borrowings:		
Within one year	**2,447,084**	4,991,843
More than one year, but not exceeding two years	**88,877**	82,965
More than two years, but not exceeding five years	**153,317**	4,997
Exceeding five years	**2,476,735**	–
	5,166,013	5,079,805

The exposure and contractual maturity dates of the Group's variable-rate borrowings are as follows:

	2009	2008
	RMB'000	*RMB'000*
Variable-rate borrowings:		
Within one year	**1,320,787**	2,544,714
More than one year, but not exceeding two years	**110,000**	198,400
More than two years, but not exceeding five years	**852,000**	567,000
Exceeding five years	**120,000**	130,000
	2,402,787	3,440,114

Interests are repriced in accordance with specific terms in the borrowing contracts.

The ranges of effective interest rates on the Group's borrowings are as follows:

	2009	2008
Effective interest rates:		
Fixed-rate borrowings	**1.550% to 5.760%**	4.374% to 8.964%
Variable-rate borrowings	**1.625% to 6.030%**	1.750% to 8.964%

Notes to the Consolidated Financial Statements

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29. BORROWINGS (Continued)

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

	2009	2008
	RMB'000	*RMB'000*
Floating rate		
– expiring within one year	**22,747,629**	5,562,026
– expiring beyond one year	**10,597,340**	1,258,362
	33,344,969	6,820,388

At 31 December 2009, certain property, plant and equipment, prepaid lease payments and bills receivables with carrying values of approximately RMB640,373,000, RMB37,947,000 and RMB2,074,808,000 (2008: RMB510,301,000, RMB43,369,000 and RMB954,194,000), respectively were pledged to secure banking facilities granted to the Group. As at 31 December 2009, bank borrowings of approximately RMB4,910,000 were guaranteed by a minority shareholder of a subsidiary of the Group.

30. DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	2009	2008
	RMB'000	*RMB'000*
Deferred tax assets	**895,316**	189,265
Deferred tax liabilities	**(68,550)**	(105,343)
	826,766	83,922

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30. DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (Continued)

The following are the deferred tax assets and liabilities recognized and movements thereon during the current and prior years:

	Revaluation of available-for-sale investments	Fair value adjustment on business combination	Unrealized profits in inventories	Impairments	Tax losses	Accumulated depreciation difference	Other	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	(178,507)	–	7,749	127	–	3,845	–	(166,786)
Acquired on acquisition of subsidiaries	–	(78,654)	–	–	–	–	2,325	(76,329)
Credit to other comprehensive income for the year	149,972	–	–	–	–	–	–	149,972
Credit to profit or loss for the year	–	1,846	19,326	113,782	39,850	2,261	–	177,065
At 31 December 2008	(28,535)	(76,808)	27,075	113,909	39,850	6,106	2,325	83,922
Credit to profit or loss for the year	–	6,623	(5,025)	80,290	631,771	(1,275)	290	712,674
Credit to other comprehensive income for the year	30,170	–	–	–	–	–	–	30,170
At 31 December 2009	**1,635**	**(70,185)**	**22,050**	**194,199**	**671,621**	**4,831**	**2,615**	**826,766**

Deferred tax assets are recognized for tax losses carrying forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group has recognized deferred tax assets in respect of tax losses amounting to approximately RMB2,731,620,000 (2008: RMB159,400,000) that can be carried forward against taxable income in the coming five years. No tax loss expired in current year (2008: RMB1,864,000). No deferred tax assets were recognized on the tax loss of approximately RMB649,587,000 (2008: RMB615,763,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable.

By reference to financial budgets, the management of the Company believes that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognised in respect of tax losses and other temporary differences.

30. DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (Continued)

Under the tax laws of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to overseas investors from 1 January 2008 onwards. As the Company controls the dividend policy of its PRC subsidiaries, it has the ability to control the timing of the reversal of temporary differences associated with the investment in subsidiaries. Furthermore, the Company has determined that those profits earned by its PRC subsidiaries will not be distributed to overseas investors in the foreseeable future. As such, the Group did not recognize the related deferred tax liability of RMB3,559,000 at 31 December 2009 (2008: RMB86,620,000).

31. ISSUED EQUITY

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

	2009	2008
	RMB'000	*RMB'000*
At 1 January	**8,233,245**	3,078,496
Issue of new shares of par value of HK$0.10 each:		
Conversion of convertible loan notes	**–**	479,986
Issue of new shares	**–**	4,660,200
Exercise of options	**15,683**	14,563
At 31 December	**8,248,928**	8,233,245

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 2008 and 2009, which included share capital and share premium in the consolidated statement of financial position, 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, and the issue of new shares and additional shares from conversion of the convertible loan notes, after deducting the costs of issuing the new shares.

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31. 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*	Equivalent to *RMB'000*
Ordinary shares			
Authorized:			
Ordinary shares of HK$0.10 each at 1 January 2008 and 31 December 2008 and 2009	80,000,000	8,000,000	
Issued and fully paid:			
Ordinary shares of HK$0.10 each at 1 January 2008	6,210,624	621,062	616,141
Issue of shares upon conversion of convertible loan notes *(Note a)*	74,372	7,437	6,836
Issue of new shares *(Note b)*	714,286	71,429	66,574
Exercise of options	7,700	770	685
Ordinary shares of HK$0.10 each at 31 December 2008	7,006,982	700,698	690,236
Exercise of options	8,369	837	738
Ordinary shares of HK$0.10 each at 31 December 2009	7,015,351	701,535	690,974

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

No preference shares are issued at 31 December 2009 and 2008.

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31. ISSUED EQUITY (Continued)

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

Notes:

a. During the year ended 31 December 2008, the convertible loan notes holders converted notes with face value of approximately HK$288 million (equivalent to approximately RMB256 million) into ordinary shares.

b. On 7 January 2008, the Company issued and allotted approximately 714,285,000 shares at a price of HK$7 per share to Sinochem Hong Kong (Group) Co., Ltd., the immediate holding company of the Company, and PCS (Barbados) Investments Co., Ltd. These shares rank pari passu in all respects with other ordinary shares in issue.

32. 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 and a new share option scheme ("New Share Option Scheme") was adopted pursuant to a resolution passed on 28 June 2007.

Old Scheme Option Scheme

The Old Share Option Scheme was adopted by the Company pursuant to a resolution passed on 26 August 2002 for the primary purpose of providing incentives to directors and eligible persons. Under Old Share Option Scheme, the Board may grant options to eligible persons, including directors (including independent non-executive directors) of the Company and its subsidiaries, suppliers, customers, consultants, advisers and shareholders of the Group and the invested entities, to subscribe for shares in the Company.

For the share options granted by the Company on 23 January 2006, 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 ordinary shares as quoted on the Stock Exchange as at the date of grant; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of grant; and (iii) the nominal value of the ordinary share of the Company. No more than two-thirds of the share options are exercisable on or after 23 January 2008, and the remaining share options are exercisable on or after 23 January 2009. All unexercised share options will expire on 23 January 2012.

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32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

New Share Option Scheme

The New Share Option Scheme was adopted by the Company 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. The New Share Option Scheme also expressly provides that, the Board may, with respect to each grant of share 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 share options.

For the share options granted by the Company on 28 August 2007, the exercise price of HK$4.99 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 ordinary shares as quoted on the Stock Exchange as at the date of grant; ii) the average closing price of the Company's shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of grant; and iii) the nominal value of the ordinary share of the Company. 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 share options granted are exercisable on or after 28 August 2010; and (iii) if the total accumulated basic earnings per share of the Company for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 is more than HK$0.674, a further of 25% of the total number of share options granted are exercisable on or after 28 August 2010 and the remaining of 25% of the share options granted are exercisable on or after 28 August 2011. Since the total accumulated basic earnings per share of the Company for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 was less than HK$0.674, 50% of the share options granted will be forfeited on 28 August 2010. All unexercised share options will expire on 28 August 2013.

HK$1 is payable on acceptance of an option under both the Old Share Option Scheme and the New Share Option Scheme. At 31 December 2009, the number of shares in respect of which options had been granted and remained outstanding was 20,297,468 (2008: 29,134,400), representing 0.29 % (2008: 0.40%) 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.

Pursuant to the Listing Rules, the total number of shares in respect of which options may be granted under all share option schemes of the Company 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 independent shareholders.

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32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

As at 31 December 2009, the details of the outstanding share options granted under the share option schemes are as follows:

Grantees	Date of grant	Exercisable period	Exercise price *(HK$)*	Number of options
Mr. LIU De Shu *(Note a)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	609,900
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. SONG Yu Qing *(Note a)* *(resigned on 16 November 2009)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	474,600
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. DU Ke Ping *(Note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	3,789,900
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Dr. CHEN Guo Gang *(Note a)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	474,600
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. Harry YANG *(Note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	474,600
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. Wade FETZER III *(Note a)*	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	6,274,600
	28 August 2007	28 August 2009 to 27 August 2013	4.990	6,171,268
				20,297,468

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32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

As at 31 December 2008, the details of the outstanding share options granted under the share option schemes are as follows:

Grantees	Date of grant	Exercisable period	Exercise price (HK$)	Number of options
Mr. LIU De Shu *(Note a)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,219,800
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. SONG Yu Qing *(Note a)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	949,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. DU Ke Ping *(Note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	4,399,800
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Dr. CHEN Guo Gang *(Note a)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	949,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. Harry YANG *(Note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	949,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. Wade FETZER III *(Note a)*	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	12,139,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	6,500,000
				29,134,400

Notes:

a. Non-Executive Director of the Company

b. Executive Director of the Company

Details of specific categories of options are as follows:

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

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For the year ended 31 December 2009

32. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

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

	Outstanding at 1 January	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December
2009	**29,134,400**	**–**	**(467,132)**	**(8,369,800)**	**20,297,468**
Exercisable at the end of the year					**14,894,768**
Weighted average exercise price	**HK$2.643**	**–**	**HK$4.007**	**HK$1.672**	**HK$3.012**
2008	37,145,000	–	(310,000)	(7,700,600)	29,134,400
Exercisable at the end of the year					20,606,400
Weighted average exercise price	HK$2.449	–	HK$3.513	HK$1.672	HK$2.643

The Group recognized the total expense of approximately RMB3,700,000 for the year ended 31 December 2009 (2008: RMB3,876,000) in relation to share options granted by the Company.

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33. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt including convertible loan notes and borrowings, net of cash and cash equivalents and equity attributable to owners of the Company comprising issued equity, 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 associated 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.

34. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2009 *RMB'000*	2008 *RMB'000*
Financial assets		
Receivables (including pledged bank deposits and cash and cash equivalents)	**3,315,991**	2,696,580
Available-for-sale investments	**176,934**	501,710
Financial liabilities		
Derivative financial instruments	**149,175**	199,204
At amortized cost	**10,943,758**	13,946,568

Notes to the Consolidated Financial Statements

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34. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and bills receivables, other receivables, cash and bank balances, trade and bills payables, other payables, convertible loan notes, derivative financial instruments and borrowings. Details of these financial instruments are disclosed in the 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 significant change to the Group's exposure to these risks or the manner in which it manages and measures these risks. The management manages and monitors the Group's exposures to these risks to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Group have foreign currency purchases, sales and borrowings, which expose the Group to currency risk. The Group considers the currency risk was insignificant and does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities that are subject to currency risk at the end of the reporting period are as follows:

	Liabilities		Assets	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**66,148**	52,191	**131,945**	454
EUR	**–**	–	**10,193**	–

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34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the United States dollars ("US$").

The following table details the Group's sensitivity to a 2% (2008: 2%) increase and decrease in the functional currency of relevant entities against US$. 2% (2008: 2%) is the sensitivity rate represent the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to relevant functional currencies at year end for a 2% (2008: 2%) change in foreign currency rates. The following table illustrates the sensitivity to profit or loss where relevant functional currencies strengthen 2% (2008: 2%) against US$. For a 2% (2008: 2%) weakening of relevant functional currencies against US$, there would be an equal and opposite impact on loss (profit) for the year.

	2009 ***RMB'000***	2008 *RMB'000*
Increase in loss (2008: increase in profit) for the year	**987**	1,035

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see Notes 28 and 29 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 29 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 management 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, and the fluctuation of London Interbank Offered Rate.

34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk (Continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points (2008: 100 basis points) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2008: 100 basis points) higher/lower and all other variables were held constant, the Group's:

- loss for the year ended 31 December 2009 would increase/decrease by approximately RMB13,730,000(2008: profit decrease/increase by approximately RMB34,401,000). This is mainly attributable to the Group's exposure to change in interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has reduced during the current year mainly due to the decrease in variable-rate borrowings.

(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 in available-for-sale investments is mainly concentrated on equity instruments issued by companies operating in fertilizer industry sector listed on the Shenzhen Stock Exchange, the Stock Exchange of Shanghai and the Stock Exchange of Singapore. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk.

Sensitivity analysis

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

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34. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(iii) Other price risk (Continued)

Available-for-sale investments

If the prices of the respective listed equity instruments had been 10% (2008: 10%) higher/lower:

- investment valuation reserve would increase/decrease by approximately RMB16,462,000 (2008: RMB39,192,000) as a result of the changes in fair value of available-for-sale investments.

Derivative financial liabilities

If the price of the Company's shares had been 5% higher/lower while all other input variables of the valuation models were held constant:

- loss for the year ended 31 December 2009 would increase by approximately RMB20,074,000/decrease by approximately RMB6,722,000 (2008: profit decrease/increase by approximately RMB21,495,000) for the Group as a result of the changes in fair value of derivative financial liabilities.

In the opinion of the directors of the Company, the sensitivity analyses above are unrepresentative of the inherent market risk as the pricing model used in the fair value valuation of the derivatives embedded in the convertible loan notes involves multiple variables and certain variables are interdependent.

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 2009 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The directors of the Company consider that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made against the irrecoverable amounts. In this regard, the directors of the Company believe 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.

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For the year ended 31 December 2009

34. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk

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

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2009, the Group has available unutilized bank loan facilities of approximately RMB33,344,969,000 (2008: RMB6,820,388,000). Details are set out in Note 29.

The following table details the Group's remaining contractual maturity for its financial liabilities. For 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. To the extent that interest rates are variable rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity and interest risk tables

2009

	Weighted average interest rate %	Less than 1 month *RMB'000*	1-3 months *RMB'000*	3 months to 1 year *RMB'000*	1-5 years *RMB'000*	More than 5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31 December 2009 *RMB'000*
Financial liabilities								
Trade and bills payables	–	984,183	1,210,304	–	–	–	2,194,487	2,194,487
Borrowings								
– fixed rate	5.17	247,477	456,981	1,891,472	757,726	3,092,135	6,445,791	5,166,013
– variable rate	4.87	100,410	462,469	840,746	1,093,947	125,109	2,622,681	2,402,787
Other payables	–	–	554,231	–	–	–	554,231	554,231
Convertible loan notes *(Note)*	4.93	–	–	–	696,242	–	696,242	775,415
		1,332,070	2,683,985	2,732,218	2,547,915	3,217,244	12,513,432	11,092,933

34. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

2008

	Weighted average interest rate %	Less than 1 month *RMB'000*	1-3 months *RMB'000*	3 months to 1 year *RMB'000*	1-5 years *RMB'000*	More than 5 years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31 December 2008 *RMB'000*
Financial liabilities								
Trade and bills payables	–	457,716	3,705,685	–	–	–	4,163,401	4,163,401
Borrowings								
– fixed rate	5.03	310,790	1,157,279	3,651,728	88,870	–	5,208,667	5,079,805
– variable rate	4.40	14,105	1,801,854	832,339	940,074	154,029	3,742,401	3,440,114
Other payables	–	676,082	–	–	–	–	676,082	676,082
Convertible loan notes *(Note)*	4.94	–	–	633,331	–	–	633,331	786,370
		1,458,693	6,664,818	5,117,398	1,028,944	154,029	14,423,882	14,145,772

Note: The undiscounted cash flows of convertible loan notes represent the redemption amount upon maturity of convertible loan notes. The carrying amount of convertible loan notes represents the total carrying amount of the liability and derivative components as at year end.

(c) Fair value

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

- the fair value of financial assets 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 (excluding 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 binomial option pricing model).

34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

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

	2009		2008	
	Carrying amount *RMB'000*	**Fair value** *RMB'000*	Carrying amount *RMB'000*	Fair value *RMB'000*
Financial liabilities				
Convertible loan notes (Liability component)	**626,240**	**613,629**	587,166	607,550

Fair value measurements recognized in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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34. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Fair value measurements recognized in the consolidated statement of financial position (Continued)

	31 December 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Listed available-for-sale investments	**169,845**	**–**	**–**	**169,845**
Derivative financial instruments	**–**	**–**	**149,175**	**149,175**
Total	**169,845**	**–**	**149,175**	**319,020**

Reconciliation of Level 3 fair value measurements of derivative financial instruments:

	Derivatives
	RMB'000
At 1 January 2009	199,204
Changes in fair value recognized in profit or loss	(49,712)
Exchange differences	(317)
At 31 December 2009	**149,175**

35. CONTINGENT LIABILITIES

At 31 December 2009 and 2008, the Group had no material contingent liabilities.

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For the year ended 31 December 2009

36. COMMITMENTS

	2009	2008
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisitions of property, plant and equipment		
– Contracted but not provided for	**69,983**	602,041
– Authorized but not contracted for	**149,981**	110,973
	219,964	713,014

37. OPERATING LEASE COMMITMENTS

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**291**	616
One to five years	**–**	231
	291	847

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37. OPERATING LEASE COMMITMENTS (Continued)

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 these operating lease agreements.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2009	2008
	RMB'000	*RMB'000*
Within one year	**67,288**	57,914
More than one year, but not exceeding five years	**47,245**	25,358
Exceeding five years	**6,198**	5,641
	120,731	88,913

Operating lease payments represent rentals payable by the Group for certain of its office space and storage. Leases are normally negotiated for an average term of 1-2 years and rentals are fixed for an average of 1-2 years.

38. RELATED PARTY TRANSACTIONS

The related parties that had transactions with the Group during the year ended 31 December 2009 and 2008 were as follows:

Fellow subsidiaries

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

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

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38. RELATED PARTY TRANSACTIONS (Continued)

Jointly controlled entities

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

Yunnan Three-Circle Sinochem Fertilizer Company Limited ("Three-Circle 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 Company Limited
(北京中化天脊貿易有限公司) (disposed in 2008)

Tianji Sinochem Gaoping Chemical Engineering Company Limited ("Tianji Sinochem Gaoping")
(天脊中化高平化工有限公司) (acquired in 2008)

Gansu Wengfu Chemical Company Limited ("Gansu Wengfu")
(甘肅甕福化工有限責任公司)

Associates

Qinghai Salt Lake Potash Company Limited ("Qinghai Salt Lake")
(青海鹽湖鉀肥股份有限公司) (acquired in 2008)

Guizhou Xinxin Industrial and Agricultural Trading Company Limited ("Guizhou Xinxin")
(貴州鑫新工農貿易有限公司) (acquired in 2008)

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38. RELATED PARTY TRANSACTIONS (Continued)

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

	2009	2008
	RMB'000	*RMB'000*
Sales of fertilizers to		
Sinochem Group	**333,295**	761,968
Three-Circle Sinochem	**30,772**	235,721
	364,067	997,689
Purchases of fertilizers from		
Sinochem Group	**684,822**	808,746
Qinghai Salt Lake	**1,927,557**	1,486,614
Tianji Sinochem Gaoping	**891,361**	366,840
Three-Circle Sinochem	**526,497**	388,356
Gansu Wengfu	**193,701**	291,599
Guizhou Xinxin	**78,382**	39,995
Sinochem Cargill	**34,212**	287,150
Beijing Sinochem Tianji Trading Company Limited	**–**	556,525
Sinochem Kailin	**–**	236,321
	4,336,532	4,462,146
Import service fee		
Sinochem Group	**51**	256
Sinochem (United Kingdom) Limited	**13,613**	12,117
	13,664	12,373
Office rental fee		
Chemsunny Ltd.	**15,572**	17,817

38. RELATED PARTY TRANSACTIONS (Continued)

(b) At the end of the reporting period, the Group has the following balances with its related parties:

	2009	2008
	RMB'000	*RMB'000*
Trade receivables		
Sinochem Group	**–**	265,260
Advance payment to suppliers		
Tianji Sinochem Gaoping	**58,448**	86,449
Qinghai Salt Lake	**39,349**	477,860
Gansu Wengfu	**27,000**	–
	124,797	564,309
Trade payables		
Sinochem Group	**45,833**	–
Qinghai Salt Lake	**235,800**	–
Three-Circle Sinochem	**17,077**	19,342
Gansu Wengfu	**–**	20,784
Sinochem Kailin	**–**	19,535
	298,710	59,661
Other receivables		
Sinochem Kailin	**6,903**	–
Chemsunny Ltd.	**4,236**	6,822
	11,139	6,822

(c) Compensation of key management personnel

Key management personnels include solely the directors of the Company and compensation paid to them is disclosed in Note 11. The remuneration is determined by the remuneration committee of the Company having regard to the performance of each individual and market trends.

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38. RELATED PARTY TRANSACTIONS (Continued)

(d) 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 Group which is controlled by the PRC government. Apart from the transactions with Sinochem Group and fellow subsidiaries and other related parties as disclosed above, the Group also conducts business with other state-controlled entities. The directors of the Company consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

At the end of the reporting period, the Group had the following significant balances with other state-controlled entities in the PRC.

	2009	2008
	RMB'000	*RMB'000*
Trade and bills receivables	**269,436**	269,322
Advance payment and other receivables	**235,206**	30,024
Trade and bills payables	**104,125**	866,271
Receipts in advance and other payables	**71,934**	1,079,149

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

	2009	2008
	RMB'000	*RMB'000*
Sales of fertilizers	**2,166,629**	3,954,141
Purchase of fertilizers	**3,844,867**	4,061,234

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

Except for amounts and transactions disclosed above and in note 42(b), the directors of the Company are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

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39. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2009 and 2008:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital	Proportion ownership interest held by the Group		Principal activities
			2009	2008	
Directly held:					
China Fertilizer (Holdings) Company Limited	BVI	US$10,002	**100%**	100%	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US$1,000,000	**100%**	100%	Investment holding
Indirectly held:					
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US$10,002	**100%**	100%	Investment holding
Sinochem Fertilizer Company Limited (中化化肥有限公司) *(Note a)*	PRC	RMB7,600,000,000	**100%**	100%	Fertilizer trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	HK$15,000,000	**100%**	100%	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務有限公司)	Macao	MOP100,000	**100%**	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Company Limited *(Note c)* (綏芬河新凱源貿易有限公司)	PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited *(Note c)* (福建中化智勝化肥有限公司)	PRC	RMB47,000,000	**53.19%**	53.19%	Sales and manufacturing of fertilizers

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39. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital	Proportion ownership interest held by the Group		Principal activities
			2009	2008	
Sinochem Chongqing Fuling Chemical Fertilizer Company Limited *(Note c)* (中化重慶涪陵化工有限公司)	PRC	RMB80,000,000	**60%**	60%	Sales and manufacturing of fertilizers
Sinochem Yantai Crop Nutrition Company Limited *(Note b)* (煙台中化作物營養有限公司)	PRC	US$241,000	**51%**	51%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Company Limited *(Note c)* (滿洲里凱明化肥有限公司)	PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan") *(Note c)* (中化平原化工有限公司) (Formerly known as Shandong Deqilong Chemical Company Limited山東德齊龍化工集團有限公司)	PRC	RMB300,000,000	**75%**	75%	Sales and manufacturing of fertilizers
Sinochem Jilin Changshan Chemical Company Limited ("Sinochem Changshan") *(Note c)* (中化吉林長山化工有限公司) Formerly known as "Jilin Fertilizer and Pesticide Group Company Limited" (吉林化肥農藥集團有限公司")	PRC	RMB589,590,000	**90.81%**	90.81%	Sales and manufacturing of fertilizers

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

39. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital	Proportion ownership interest held by the Group		Principal activities
			2009	2008	
Hubei Sinochem Orient Fertilizer Company Limited ("Sinochem Orient") *(Note c)* (湖北中化東方肥料有限公司)	PRC	RMB30,000,000	**80%**	80%	Sales and manufacturing of fertilizers
Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong") *(Note c)* (中化山東肥業有限公司)	PRC	RMB100,000,000	**51%**	51%	Sales and manufacturing of fertilizers

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

Note a: Company with foreign investment

Note b: Sino-foreign enterprise

Note c: Domestic company

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

40. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the principal subsidiaries of the Group as at 31 December 2009 and 2008:

Name of jointly controlled entities	Place of incorporation/ registration	Nominal value of issued capital	Proportion ownership interest held by the Group	Principal activities
			(Note a)	
Indirectly held:				
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited (天津北方化肥物流配送有限公司) *(note b)*	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	20%	Sales and manufacturing of fertilizers
Yunnan Three Circle-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-Circle Sinochem Fertilizer Company Limited (雲南三環中化化肥有限公司)	PRC	RMB600,000,000	40%	Sales and manufacturing of fertilizers
Gansu Wengfu Chemical Company Limited (甘肅甕福化工有限責任公司)	PRC	RMB181,100,000	30%	Sales and manufacturing of fertilizers
Tianji Sinochem Gaoping Chemical Engineering Company Limited (天脊中化高平化工有限公司)	PRC	RMB500,000,000	40%	Sales and manufacturing of fertilizers

Notes:

a. The above table lists the jointly controlled entities of the Group which, in the opinion of the directors of the Company, 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 of the Company, result in particulars of excessive length.

b. According to the agreements between the investors, the investors exercise joint control over the entity.

41. RETIREMENT BENEFITS SCHEME CONTRIBUTION

According to the relevant laws and regulations in the PRC, the Company's certain subsidiaries are required to participation 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

42. ACQUISITION OF SUBSIDIARIES

(a) Sinochem Pingyuan Chemical Company Limited

In June 2008, the Group completed an acquisition of 75% issued equity of Sinochem Pingyuan Chemical Company Limited 中化平原化工有限公司 ("Sinochem Pingyuan", formerly known as Shandong Deqilong Chemical Company Limited 山東德齊龍化工集團有限公司) with consideration of RMB695,000,000. This transaction has been accounted for using the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
Net assets acquired:			
Property, plant and equipment	2,184,813	41,956	2,226,769
Prepaid lease payments	59,874	–	59,874
Other long-term assets	24,067	–	24,067
Deferred tax assets	2,325	–	2,325
Inventories	94,680	–	94,680
Trade and bills receivables	75,767	–	75,767
Advance payments and other receivables	41,767	–	41,767
Bank balances and cash	82,808	–	82,808
Trade and bills payables	(455,759)	–	(455,759)
Receipts in advance and other payables	(746,978)	–	(746,978)
Borrowings	(518,667)	–	(518,667)
Taxation payables	(313,796)	–	(313,796)
Net assets	530,901	41,956	572,857
Minority interest			(143,214)
Goodwill			265,357
			695,000
Total consideration			
Satisfied by:			
Cash			695,000
Net cash outflow arising on acquisition:			
Cash consideration			(695,000)
Bank balances and cash acquired			82,808
			(612,192)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

42. ACQUISITION OF SUBSIDIARIES (Continued)

(b) Sinochem Jilin Changshan Chemical Company Limited

In April 2008, the Group entered into an agreement with 吉林省國有資產監督管理委員會 ("Jilin SASAC") to acquire the entire equity interest in Jilin Fertilizer and Pesticide Group Co., Ltd 吉林化肥農藥集團有限公司 (renamed as Sinochem Jilin Changshan Chemical Company Limited 中化吉林長山化工有限公司, "Sinochem Changshan", at the completion of the acquisition) at nil consideration. The acquisition is subject to the completion of a debt restructuring arrangement among Jilin SASAC, Sinochem Changshan and Oriental Asset Management Company Limited, an independent lender. Based on the agreement entered with Jilin SASAC, the Company will continuously support the operation of Sinochem Changshan, and thus, has contributed an additional funding of approximately RMB149 million in Sinochem Changshan subsequent to the acquisition.

This acquisition has been accounted for using the purchase method of accounting. The effect of the debt restructuring arrangement and the acquisition are set out below.

	Acquiree's carrying amount before debt restructuring arrangement *RMB'000*	Effect of debt restructuring arrangement *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
Net assets acquired:				
Property, plant and equipment	637,908	–	52,580	690,488
Prepaid lease payments	86,204	–	267,172	353,376
Other long-term assets	2,909	–	–	2,909
Inventories	36,965	–	–	36,965
Trade and bill receivables	11,784	–	–	11,784
Advance payments and other receivables	188,152	–	–	188,152
Bank balances and cash	29,970	–	–	29,970
Trade and bills payables	(65,693)	–	–	(65,693)
Receipts in advance and other payables	(667,478)	–	–	(667,478)
Borrowings	(562,208)	300,496	–	(261,712)
Taxation payables	(16,584)	–	–	(16,584)
Deferred tax liabilities	–	–	(78,654)	(78,654)
Net assets	(318,071)	300,496	241,098	223,523
Minority interests				(9,371)
Discount on acquisition of a subsidiary				(214,152)
Total consideration				–
Net cash inflow arising on acquisition:				
Bank balances and cash acquired				29,970
				29,970

42. ACQUISITION OF SUBSIDIARIES (Continued)

(b) Sinochem Jilin Changshan Chemical Company Limited (Continued)

The debt restructuring arrangement included (i) a novation of debt of approximately RMB426,876,000 from Oriental Asset Management Company Ltd. to Jilin SASAC, (ii) a waiver of debt of approximately RMB300,496,000 and (iii) a capitalization of approximately RMB54,160,000 upon full settlement of the balance of approximately RMB72,220,000. The capitalization is completed in December 2008, resulting in a dilution of the Group's equity interest of Sinochem Changshan from 100% to 90.81% and a gain on dilution of RMB17,438,000.

The discount on acquisition is calculated as the shortfall of the cost of investments over the fair value of net assets acquired.

As noted above, the Group is committed to continuously supporting the operations of Sinochem Changshan. Sinochem Changshan contributed a loss of approximately RMB18 million for the period between the date of acquisition and 31 December 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

42. ACQUISITION OF SUBSIDIARIES (Continued)

(c) Hubei Sinochem Orient Fertilizer Company Limited

In December 2008, the Group and another shareholder of Hubei Sinochem Orient Fertilizer Company Limited 湖北中化東方肥料有限公司 ("Sinochem Orient") have injected additional capital in Sinochem Orient with approximate amounts of RMB18 million and RMB1 million, respectively. Prior to this capital injection, Sinochem Orient was jointly controlled entity of the Group. Subsequent to the additional capital injection, the Company's equity interest in Sinochem Orient has increased from 55% to 80%. This transaction has been accounted for using the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:		
Property, plant and equipment	7,647	7,647
Inventories	23,868	23,868
Trade and bills receivables	2,798	2,798
Advance payments and other receivables	12,024	12,024
Bank balances and cash	7,482	7,482
Trade and bills payables	(1,462)	(1,462)
Receipts in advance and other payables	(5,709)	(5,709)
Borrowings	(15,000)	(15,000)
Net assets	31,648	31,648
Minority interests		(6,742)
Total consideration		
Cash		18,076
Carrying amount of the Company's interest in Sinochem Orient		6,830
		24,906
Net cash outflow arising on acquisition:		
Cash consideration		(18,076)
Bank balances and cash acquired		7,482
		(10,594)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

42. ACQUISITION OF SUBSIDIARIES (Continued)

(d) Sinochem Shandong Fertilizer Company Limited

On 20 February 2008, Sinochem Fertilizer Company Limited, a company incorporated in the PRC, an indirectly wholly-owned subsidiary of the Company, has completed its acquisition of 51% equity interest in Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong"), a limited liability company established in the PRC, from Sinochem Group at a cash consideration of approximately RMB56,380,000. Deemed distribution of RMB56,384,000 was recognised as capital reserve in during the year ended 31 December 2008.

The transfer of the controlling interest in Sinochem Shandong as mentioned above is regarded as a business combination involving entities or businesses under common control.

Accordingly, the transaction is accounted for using the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the transfer of the controlling interest in Sinochem Shandong has been completed as at the date of its incorporation.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

43. LIQUIDATION/DISPOSAL OF SUBSIDIARIES

(a) Sinochem Beidahuang Heilongjiang Co., Ltd.

On 11 December 2009, the Group liquidated its 60% owned subsidiary, Sinochem Beidahuang Heilongjiang Agricultural Material Co., Ltd. 中化北大荒黑龍江農資有限公司 ("Beidahuang"). The net assets of Beidahuang, at the date of liquidation, are as follows:

	Carrying amount as at date of liquidation *RMB'000*
Net assets at the date of liquidation:	
Bank balances and cash	1,032
Other receivables	11,200
Amount due from group entities	16,811
	29,043
Minority interests	(11,617)
	17,426
Gain on liquidation	4
	17,430
Settlement by	
Bank balances and cash allocated to the Group	619
Amount due to Beidahuang	16,811
	17,430
Net cash outflow arising on liquidation:	
Bank balances and cash allocated to the Group	619
Bank balances and cash derecognised	(1,032)
	(413)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

43. LIQUIDATION/DISPOSAL OF SUBSIDIARIES (Continued)

(b) Guizhou Kaiyang Qinglongjiang Company Limited

In August 2008, the Group disposed its 60% equity interest in Guizhou Kaiyang Qinglongjiang Company Limited 貴州開陽青龍江有限公司 ("Qinglongjiang") for a cash consideration of approximately RMB14 million. The net assets of Qinglongjiang, at the date of disposal, are as follows:

	Carrying amount as at disposal date *RMB'000*
Net assets disposed:	
Property, plant and equipment	369
Mining right	23,759
Minority interests	(9,465)
Bank balances and cash	583
Others	(1,182)
Net assets	14,064
Gain on disposal	419
Total consideration	14,483
Net cash inflow arising on disposal:	
Bank balances and cash disposed of	(583)
Cash consideration	14,483
	13,900

44. MAJOR NON-CASH TRANSACTION

In the current year, Qinghai Salt Lake declared dividends of RMB237 million to the Group and both parties agreed to settle the dividends to be received by the Group with the Group's trade payables to Qinghai Salt Lake.

Five-Year Financial Summary

Consolidated Results

	For the year ended 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000* (restated)	*HK$'000*	*HK$'000*
Revenue	**27,010,709**	45,392,885	28,381,689	21,126,571	19,248,665
(Loss) profit before tax	**(2,149,096)**	2,084,237	978,294	1,003,973	929,957
Income tax credit (expense)	**683,127**	(176,430)	(316,400)	(99,191)	(137,533)
(Loss) profit for the year	**(1,465,969)**	1,907,807	661,894	904,782	792,424
Attributable to					
Owners of the Company	**(1,443,813)**	1,912,555	641,142	896,246	779,421
Minority interests	**(22,156)**	(4,748)	20,752	8,536	13,003
	(1,465,969)	1,907,807	661,894	904,782	792,424

Consolidated Statement of Financial Position

	At 31 December				
	2009	2008	2007	2006	2005
	RMB'000	*RMB'000*	*RMB'000* (restated)	*HK$'000*	*HK$'000*
Total assets	**25,291,151**	30,125,080	17,617,314	10,509,075	9,275,335
Total liabilities	**(12,756,113)**	(15,754,715)	(9,854,532)	(5,965,104)	(5,614,622)
Net assets	**12,535,038**	14,370,365	7,762,782	4,543,971	3,660,713

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