中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

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

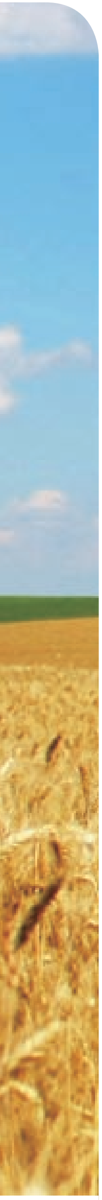
Annual Report **2010**

NURTURING CHINA'S AGRICULTURE SECTOR


SINOFERT

Contents

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 2010, 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.

The Group strives to become a global leading provider of agricultural inputs and agrichemical services. 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 20th times, ranking the 203th in 2010. 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. FENG Zhi Bin *(Chief Executive Officer)*
Mr. Harry YANG

Non-Executive Directors

Mr. YANG Lin
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
Mr. Harry YANG

Nomination Committee

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

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

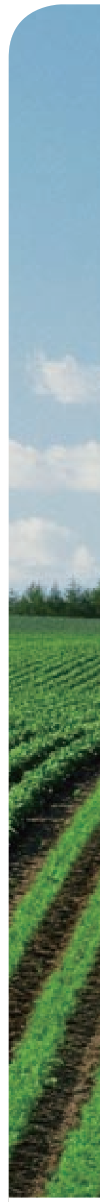
Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Bank of Tokyo-Mitsubishi
Rabobank International

Registered Office

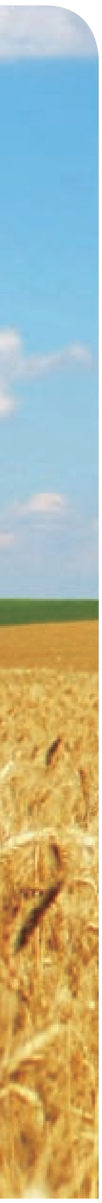
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

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)

HSBC Securities Services (Bermuda) Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong (Branch)

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

Company Website

www.sinofert.com.hk

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

Hong Kong

Telephone	:	(852) 3656 1557
Fax	:	(852) 2850 7229
Address	:	Units 4601-4610, 46th Floor Office Tower, Convention Plaza 1 Harbour Road Wanchai Hong Kong

Beijing

Telephone	:	(10) 5956 9785
Fax	:	(10) 5956 9627
Address	:	Level 10, Central Tower Chemsunny World Trade Centre 28 Fuxingmen Nei Road Beijing 100031 PRC

Financial Highlights

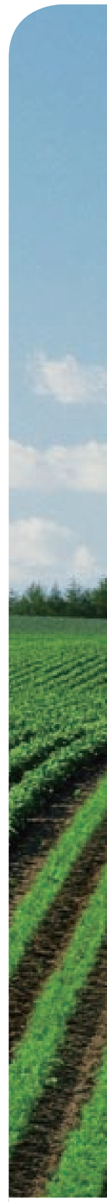
Financial Highlights

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

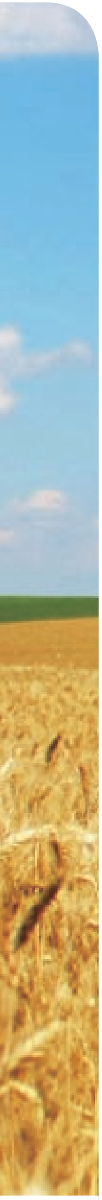
	2010	2009
Sales volume *(in 10,000 tons)*	**1,551**	1,523
Revenue	**29,271,077**	27,010,709
Gross profit (loss)	**1,490,998**	(562,749)
Profit (loss) before tax	**482,862**	(2,149,096)
Profit (loss) attributable to shareholders of the Company *(Note 1)*	**535,711**	(1,443,813)
Basic earnings (loss) per share (RMB)	**0.0763**	(0.2059)
Return on Equity	**4.25%**	(11.88%)
Debt to Equity Ratio *(Note 2)*	**55.27%**	48.82%

Note 1: Excluding the changes in the fair value of derivative component of the convertible loan notes, profit attributable to shareholders of the Company for the year ended 31 December 2010 was RMB437 million and loss attributable to shareholders of the Company for the year ended 31 December 2009 was RMB1,494 million respectively.

Note 2: Calculated on the basis of total 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 receivables).



Chairman's Statement



Dear Shareholders,

Hereby I present to all the shareholders the annual results of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010.

In 2010, global economy recovered at a slow pace, China fertilizer industry shown a recovery trend under the guidance of the National Petroleum and Chemical Industry Adjustment and Revitalization Plan and the pulling effect of international fertilizer market, both of the fertilizer production and profit increased compared with the year of 2009. However, fertilizer industry is still facing complicated and changing internal and external business environment: disasters of prolonged chilly conditions, floodings and drought, raw material supply interruption and price increasing trend, in addition to the influence on the market demand and enterprise production from the strict export duty policy on fertilizer products. Moreover, nitrogen fertilizer industry is still suffering from irrational production capacity structure, inadequate low-cost production capacity; and most enterprises are lack of competitive edge, have to deal with operational pressures from technological innovation, safety and environmental protection.

Facing the tough condition of domestic fertilizer market oversupply and price slow recovery, the Group fully deployed the synergic capability of the integrated upstream and downstream business operation, as well as domestic and overseas market trade. In 2010, the Group realized total sales volume of 15.51 million tons, up by 1.81% year on year, hardening the Company's leading market status in China fertilizer distribution sector; revenue of the Group was RMB29,271 million, up by 8.37% year on year; profit for the year attributable to shareholders of the Company was RMB536 million, reversing the losses in 2009.

In 2010, the Group made a thorough analysis of the internal and external business environment in a global vision, further clarified development thoughts, unswervingly made progress of major strategic measures, made a solid step toward the aim of becoming "a global leading provider of agricultural inputs and agrochemical services". The Group constantly strengthened the natural resources acquiring ability and pushed forward the progress. In terms of production and technology, the Group enriched development content and gained stronger industrial competitive edge based on technology innovations, energy saving and consumption reduction; In terms of products marketing and distribution, the Group consolidated its market position as a leading fertilizer provider, in addition to optimization of domestic distribution network, exploration of innovative development, improvement of network operations quality, stimulation of operating energy and emphasis on value creation.

The Group sticked to a sound financial policy, actively pushed forward comprehensive risk management, executed the optimization of rules and working flows, ensuring the safety of the Group's assets and business operation.

Chairman's Statement

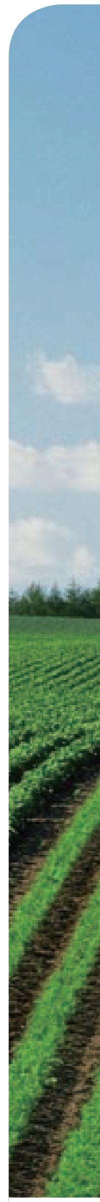
Working to maximize shareholders' value, the Board has continuously improved corporate governance to bring into place a highly standardized, effective and rational governance mechanism. In compliance with the Code on Corporate Governance Practices as required by The Stock Exchange of Hong Kong Limited, the Company held five regular meetings of the Board in 2010, at which the Directors fulfilled their obligations, including reviewing and approving the annual report, interim report, corporate development strategy and other important issues. At the same time, the Audit Committee, the Remuneration Committee and the Nomination Committee of the Board all implemented rights and obligations assigned by the Board in terms of the improvement on the Company's internal supervision, remuneration optimization and governance structure.

Looking forward to the future, global economy recovery faces gradually reduced downward risks, China economy will maintain a relatively rapid growing pace, which provides a positive macro development environment for the fertilizer industry. At present, global fertilizer industry including China is experiencing a new round of industrial recombination and conformity, the large multinational fertilizer companies gain stronger development ability and more controlling power on the natural resources and market. As an integrated comprehensive fertilizer enterprise, the Group will adopt a global vision to strengthen control on resources, increase technology input, consolidate industrial competitive edge, enrich business operation content of distribution network, establish value-added ability of product trading operation; At the same time, the Group will consolidate the relationship with both domestic and international fertilizer suppliers and customers, innovate business operating model, expand market share, further consolidate the Group's leading position, build core competitive edge and sustainable development ability, in order to fulfill our business goals for the year of 2011, and be committed to create value for the shareholders and wealth for society.

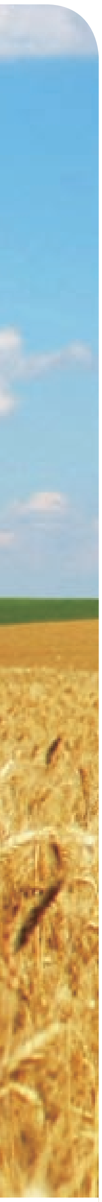
Last but not the least, on behalf of the Board, I would like to take this opportunity to extend our heartfelt appreciations to the customers, the management and employees of the Group. We hope to have your continuous support, and Sinofert's management and employees will bear in mind our mission, preserve solidarity, continue self-strengthening and make great contribution to the development of the Company.

Liu De Shu
Chairman of the Board

Hong Kong, 24 March 2011



Management Review and Prospect



In 2010, China fertilizer market was deeply affected by the prolonged chilly, snowy and rainy weather in the spring and subsequent natural disasters of drought and flooding, which resulted in an obvious delay of the spring fertilization season, and badly affected the overall demand in the year. Although fertilizer export turned into positive conditions in the second half of the year and provided a relatively strong push for the domestic urea and DAP markets, and helped the price of these products recovering from the persistent sluggish conditions in the first half of the year, the fluctuation of the market price movement increased business operation risks to fertilizer enterprises and affected their annual results obviously.

In 2010, the domestic fertilizer saw a stronger recovery, showing a consistent and stable development trend. In the year, China fertilizer production reached 66.20 million tons in nutrient, up by 2.52% year on year. Both the phosphate and potash fertilizer production grew in a higher speed, up by 20.15% and 12.71% respectively, and phosphate industrial financial performance returned to the normal level before the financial crisis. However, fertilizer industry still afforded pressures from both the raw material price escalation and energy saving and emission reduction, nitrogen producer was affected obviously, with plant capacity utilization rate decreased to around 70%. As at the end of November 2010, nearly 40% nitrogen producers fell into loss and the total loss amount increased by 6% year on year.

Facing the fast changing market environment, the Group adopted the guiding principles of enriching business content, consolidating management foundation and improving earnings performance under the leadership of the Board. The Group consolidated the cooperation relationship with core suppliers, strengthened measures to acquire natural resources, made every effort to reduce fertilizer production cost of subsidiary production enterprises, explored new development model for the distribution network, improved business operation quality and earning ability at distribution network, systematically strengthened internal controls, realized synergic effect of upstream and downstream integration.

Financial Highlights

For the year ended 31 December 2010, the Group's revenue reached RMB29,271 million, up by 8.37% year on year; and profit for the year attributable to shareholders of the Company reached RMB536 million, recovered from the loss in 2009.

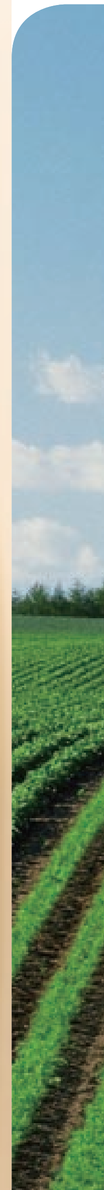
Product Operations

Facing the complicated market environment including demand decline, price fluctuation and increasing operation risks, the Group adopted the established business operation strategy, constantly strengthened the building of marketing and service abilities and customer development, sales volume reached 15.51 million tons for the year ended 31 December 2010, up by 1.81% year on year, continuously consolidated the leading market status as the largest fertilizer distributor and service provider in China.

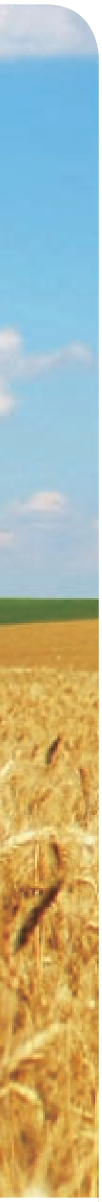
Management Review and Prospect

Potash Operation: The sales volume of potash fertilizer rose to 2.77 million tons, up by 17.28% year on year. In view of the positive potash market movement, especially the gradual recovery in the second half of the year, the Group grasped the chances, realized profit on potash business, maintained its leading status in domestic market. As far as the product procurement is concerned, the Group achieved further solid cooperation with international core suppliers, signed potash import Memorandum of Understanding (MOU) for the years from 2011 to 2013, and successfully closed the joint negotiations on potash import. At the same time, the Group realized a more stable strategic cooperation with domestic potash producer, Qinghai Salt Lake Potash Company Limited ("Qinghai Salt Lake"). They lay a good foundation for the potash business operation in 2011.

Nitrogen Operations: Sales volume of nitrogen fertilizers reached 6.82 million tons, up by 10.19% year on year. Nitrogen fertilizer business structure was optimized, procurement quantity from core suppliers increased by 47% over 2009, and direct sales proportion increased to 54%, effectively reducing the logistic expenses and financing cost. The Group's business operation ability on low margin product like nitrogen fertilizer was improved. The Group strengthened the relationship with Nitrogen Fertilizer Industry Association, was promoted to the membership of Vice General Director from director membership, and thus its industrial influence became stronger.



Management Review and Prospect



Phosphate and Compound Fertilizer Operations: sales volume of phosphate fertilizer reached 3.31 million tons, down by 10.32% year on year; sales volume of compound fertilizers reached 2.06 million tons, nearly unchanged from the year of 2009. The Group improved suppliers base of the domestic phosphate business, achieved cost advantage by mass and stable procurement operation, as well as the enlarged proportion of direct sale to big customers. The Group deployed the synergic and integrated business operation, ensuring the Group's production subsidiaries to maintain relatively high capacity utilization as well as meeting fertilizer demand from the distribution network.

Production

In 2010, the Group had no newly built project, expansion or new acquisition. Total fertilizer production capacity of subsidiaries and joint ventures of the Group remained to be 10.34 million tons. The production enterprises constantly pushed forward lean management, pursued technology advance, enhanced technological innovations, implemented the low-cost strategy.

Sinochem Chongqing Fuling Chemical Fertilizer Company Limited ("Sinochem Fuling"), a subsidiary of the Group, produced 1 million tons phosphate fertilizer, 455,000 tons compound fertilizers in the year, reaching a new historical high level. Sinochem Fuling realized a new breakthrough on self-innovation of fine phosphate chemical business, achieving a total of 19 patents. Sinochem Jilin Changshan Chemical Company Limited ("Sinochem Changshan") completed technological upgrading on compound fertilizer facilities, annual production of urea topped 300,000 tons, realizing a new historical high level. Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan") completed the disposal of its non-core assets, implemented various projects including polypeptide urea, the second phase of feedstock coal briquetting, and desulphurization went into successful operation, annual urea production exceeded 900,000 tons. Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong") focused on lean management and technological innovations, the project of reducing overall energy consumption was assessed as excellent Quality Control achievement in the national chemical industry. Sinochem Yantai Crop Nutrition Company Limited ("Sinochem Yantai") initially realized the transformation from a traditional blending plant to a newly featured enterprise producing specialty fertilizer, polypeptide slow and controlling release products and trace element products.

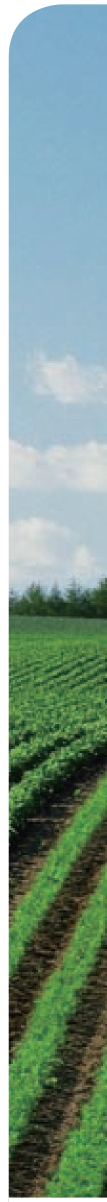
Network Distribution

In 2010, the Group enhanced the adjustment and optimization on the existing distribution network, adjusted the layout of part distribution centers and improved their business operation performance by establishing grading standard and the road map of adjustment and optimization. Meanwhile, the Group newly built 70 distribution outlets in the year, to

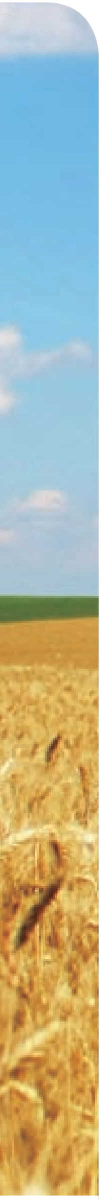
Management Review and Prospect

further enlarge the network coverage. The newly built distribution centers were mainly located in Guangxi province and southwest of China, and achieved improved network coverage and more reasonable layout. As at 31 December 2010, the Group owned 2,106 distribution outlets in total, fertilizer sales volume through the network reached 10.27 million tons. In addition to the above, the Group continued to push forward organic growth of the distribution network, focused on developing grass-roots customers. As at 31 December 2010, the distribution network owned 43,700 trading customers, including 37,400 township customers.

Moreover, in view of the policies encouraging arable land transfers and implementing mass operation in terms of agricultural production, the Group followed the overall domestic agricultural development trend, and established two Fert-Mart agricultural inputs superstores respectively at Pingdu County, Shandong province in June 2010, and Jinhua county, Zhejiang province in November 2010, providing "one-stop shopping" services to emerging prime customers in the rural areas, such as big crop-growers, farmers' cooperatives, group-buying farmers and village retail stores with fertilizers, pesticides, seeds, agricultural production tools and books. In the meantime, the Group made efforts to help farmers to improve planting skills to enlarge "Fert-Mart" and the Group's brand influence by carrying out various agrichemical service activities including onsite expert consultation, pilot village planting and agrichemical service lectures.



Management Review and Prospect



Internal Control and Management

The Group paid constant attention to the security of shareholders' assets, adhered to a sound financial policy, rationally adjusted financing structure, made efforts to reduce financing cost subject to meeting the capital requirement for the Group's development. At the meantime, the Group emphasized on supporting business development through innovations of cooperations model.

The Group's internal control and risk management system was built according to the "Internal Control – Integrated Framework" published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the United States, and the "Internal Control and Risk Management – A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants, and was in reference to the "Basic Rules of the Enterprise Internal Control" and its referencing guidelines issued by five ministries and commission of China central government. The Group conducted annual assessment on comprehensive risk management. The Group's internal control and risk management system provided effective support to ensure shareholders' interests, assets safety and strategic implementation, and it also meets the compliance requirements from the overseas regulatory organizations.

Corporate Social Responsibility

The Group always adheres to the corporate mission of "Harmonious China, Safe Agriculture, Sinofert whole-heartedly serving the Chinese farmers", and provides various agrichemical technological services to meet the needs of the end-users. In 2010, a total of 3,500 agrichemical service events were held, including agrichemical lectures, market consulting, soil testing for formulated fertilization, benefiting about 40 million farmers. The Group enhanced service to pilot fertilization villages together with the Ministry of Agriculture, printed and provided 12,000 "Technical Instructor Manuals" and 910,000 "Agro-technology promotion discount card" to farmers. The Group also made cooperation with National Hybrid Rice R&D Center led by the academician Prof. Yuan Longping, providing specialty fertilizer for super high yield rice and support for the realization of world class rice yield goal of 900 KG/mu. The Group also provided support to hybrid rice planting campaign to promote food production and ensure national food security. The Group conducted a nationwide promotional activity of potash for direct application in 2010. In addition, the Group continues to sponsor the Sinochem Agri-Plaza program on China National Radio and the Sinofert Agricultural Express program on CCTV-7, which provided the farmers with information and knowledge on better fertilizer application practices and agricultural product market, distributed 2.67 million technical posters and promotional flyers.

Outlook

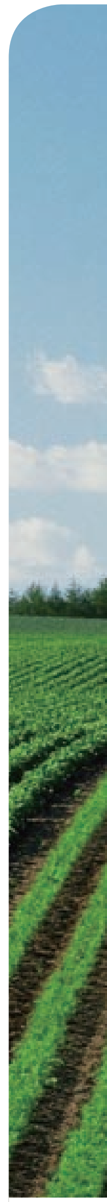
In 2011, the world economy is expected to maintain recovery trend, but there are more instable factors and uncertainties emerging, the recovery might encounter difficulties and even setbacks. China economy is expected to maintain positive development, with annual growth rate around 8%. The macro economy adjustment and control policies adopted by the central government will focus on "maintaining stable economic growth, optimizing economic structure and reining in inflation", and pay more attention to inflation expectation management and price stabilization. Credit tightening and financing cost increase will become an inevitable problem for all types of industries.

Management Review and Prospect

China has achieved continuous increase of grain production in the past seven consecutive years, and is able to maintain a balance between supply and demand and gains extra reserve in bumper years. However, frequent natural disasters lead to food supply tightness in the world, the threat of food crisis is imminent, China's government has to make relentless effort to achieve stable grains production.

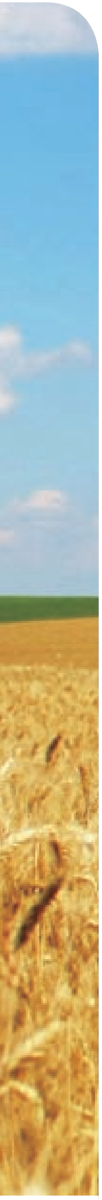
In 2011, China's central government will continue to strengthen favourable policy aiming to benefit and support "agricultural, rural areas and farmers". In February, the State Council issued ten measures to support grain production, including enlarging subsidies application, advancing distribution of the subsidies, increasing grain minimum purchasing price, etc. The central government has been making continuous additional input in agriculture, improving the infrastructures and promoting the steady development of agriculture and constant increase of the farmers' income. The positive agricultural development environment lays a solid foundation for fertilizer industry's recovery and its constant and fast development. With the nationwide grain production capacity expansion program being carried out, domestic fertilizer market will regain stable and long term growth momentum.

In recent years, with newly added production capacity increasing at a fast pace, domestic fertilizer market suffered more apparently excessive oversupply, industrial recombination and conformity trend becomes more obvious in both production and distribution sectors. As a leading enterprise in China's fertilizer industry, the Group will strengthen the ability of acquiring natural resources, improve the core competitive edge of subsidiary production enterprises by technological upgrading and innovation. In the meantime, the Group will continue to explore new model of distribution network development and business operation, greatly enhance value-added service ability in order to realize sustainable development of the Group, create value for shareholders, make greater contribution for national food security and agricultural development.



Management's Discussion and Analysis





For the year ended 31 December 2010, sales volume of the Group reached 15.51 million tons, and revenue was RMB29,271 million, representing an increase of 1.81% and 8.37%, respectively, over the year of 2009.

For the year ended 31 December 2010, gross profit of the Group reached RMB1,491 million, representing an increase of RMB2,054 million as compared with the gross loss for the year ended 31 December 2009. The profit for the year attributable to shareholders of the Company was RMB536 million, up by RMB1,980 million as compared with the loss for the year ended 31 December 2009. Excluding the changes in fair value of derivative component of the convertible loan notes, profit for the year attributable to shareholders of the Company would be RMB437 million, representing an increase of RMB1,931 million as compared with the loss for the year of 2009.

I. Operation Scale

1. Sales Volume

For the year ended 31 December 2010, sales volume of the Group reached 15.51 million tons, up by 1.81% over the year of 2009. Due to the recovery of potash market, the sales volume of imported fertilizers went up by 15.09% year on year to 3.23 million tons in 2010. The sales volume of domestic fertilizers was 11.73 million tons, with a minor increase over the year of 2009.

In terms of product composition, the potash demand recovered in 2010 after a sharp fall in 2009, the Group maintained potash business, especially the imported potash business with relative sharp competitive edge, through innovative potash business operation and sales expansion. Sales volume of potash increased by 17.28% year on year. By relying on the product supply from equity share-controlling plants of the Group and the building of core supplier system, and expanded sales volume through the distribution network, nitrogen sales volume increased by 10.19% year-on-year. Following a relatively stable demand, sales volume of compound fertilizers nearly unchanged over the year of 2009. Sales volume of phosphate was down by 10.32% over the year 2009 and sales volume of domestic high-concentration phosphate remained stable, but sales volume of imported phosphate decreased due to higher price on the international phosphate market.

2. Revenue

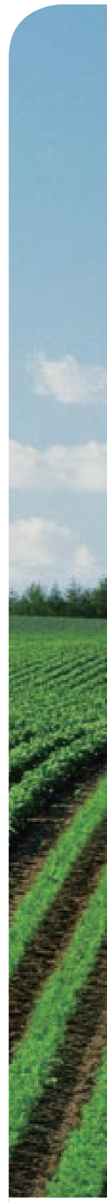
For the year ended 31 December 2010, revenue of the Group was RMB29,271 million, up by RMB2,260 million over the year of 2009, which represented an increase of 8.37%, much higher than the 1.81% growth rate in sales volume, thanks to the increasing prices in 2010. The Group's average selling price was 6.45% up over the year of 2009.

Table 1:

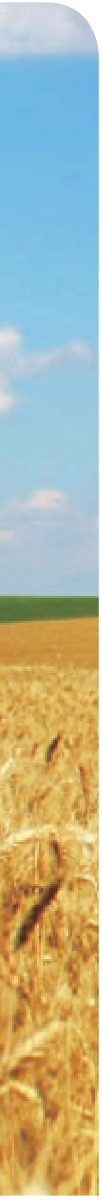
	For the year ended 31 December			
	2010		2009	
	Turnover *RMB'000*	**As percentage of total turnover**	Turnover *RMB'000*	As percentage of total turnover
Potash fertilizers	**7,321,999**	**25.01%**	6,750,208	24.99%
Nitrogen fertilizers	**9,875,618**	**33.74%**	8,254,933	30.56%
Compound fertilizers	**4,547,083**	**15.53%**	4,716,023	17.46%
Phosphate fertilizers	**6,380,334**	**21.80%**	6,511,440	24.11%
Others	**1,146,043**	**3.92%**	778,105	2.88%
Total	**29,271,077**	**100.00%**	27,010,709	100.00%

3. Revenue 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").



Management's Discussion and Analysis



The following is an analysis of the Group's revenue and profit (loss) by operating segment for the years ended 31 December 2010 and 2009:

Table 2:

2010

	Sourcing & Distribution *RMB'000*	**Production** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
Revenue				
External sales	**25,324,421**	**3,946,656**	**–**	**29,271,077**
Inter-segment sales	**358,022**	**2,970,394**	**(3,328,416)**	**–**
Total	**25,682,443**	**6,917,050**	**(3,328,416)**	**29,271,077**
Segment profit	**451,862**	**73,198**		**525,060**
2009				
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) profit	(2,542,804)	167,234		(2,375,570)

Segment profit (loss) represents the profit (loss) earned by each segment without taking into account unallocated expenses and incomes, changes in fair value of derivative component of the convertible loan notes, and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

In 2010, the domestic fertilizer industry experienced a strong trend of recovery and maintained a sustainable and steady development. This led to a significant improvement in the Group's results for the year ended 31 December 2010 compared with the year of 2009. Among this, the Sourcing and Distribution Segment recorded a profit of RMB452 million for the year ended 31 December 2010, up by RMB2,995 million over the year of 2009. The profit was mainly attributable to the increase in prices of the fertilizers compared to the year of 2009 as the global fertilizer price recovered, price of all types of fertilizer increased compared with that of 2009. Phosphate fertilizer price already recovered to the level before financial crisis. The profit of the Production Segment decreased by RMB94 million from the year of 2009 to RMB73 million mainly due to the increasing price of coal in the second half of 2010 that nitrogen enterprises needed as a raw material.

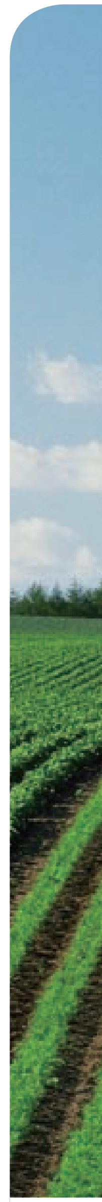
II. Profit

1. Gross profit

For the year ended 31 December 2010, gross profit of the Group was RMB1,491 million, representing an increase of RMB2,054 million over the year ended 31 December 2009.

The Group adopted different strategies for different products. The potash price stopped plunging and started to go up steadily in 2010, which resulted in gross profit in potash; the nitrogen price fluctuated in 2010 and the Group adopted a policy of "frequent purchase and quick sales" and effectively avoided the risk of price fluctuations, but the profit margin was further compressed which led to the decrease in gross profit; the Group seized the opportunity of market recovery in 2010, continued to consolidate the domestic and overseas supply system, brought into full play the advantage of high-quality, adequate and cost-competitive product supply and ensured a sustainable and steady enhancement in profitability of phosphates through the well-placed distribution network system.

In summary, except for the nitrogen business, profitability of the Group's other types of fertilizers experienced a steady improvement.

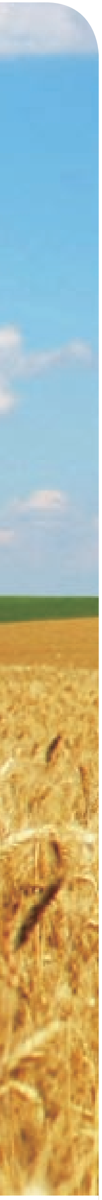


2. Share of results of jointly controlled entities, share of results of associates

Share of results of jointly controlled entities: For the year ended 31 December 2010, the share of results of jointly controlled entities of the Group was a profit of RMB58 million, up by RMB116 million compared to the loss of RMB58 million for the year ended 31 December 2009, including a profit of RMB80 million from production enterprises such as Yunnan Three Circle-Sinochem Fertilizer Co., Ltd., Guiyang Sinochem Kailin Fertilizer Company Limited, Yunnan Three Circle-Sinochem-Cargill Fertilizer Co. Ltd. and Gansu Wengfu Chemical Co., Ltd., and a loss of RMB22 million from Tianji Sinochem Gaoping Chemical Limited ("Tianji JV"). This was mainly attributable to that the price increase of phosphate helped the Group's shareholding phosphate production enterprises gained profit after the market recovery in 2010. As a result of the constant price increase of coal, the nitrogen enterprises suffered a loss.

Share of results of associates: For the year ended 31 December 2010, the share of results of associates of the Group amounted to RMB185 million, down by RMB66 million compared to the year of 2009. This was mainly attributable to that the potash market price remained at a relatively low level, even though it experienced some rebounce, thus the profitability in 2010 was lower than that of 2009.

Management's Discussion and Analysis



3. Income tax (expenses) credit

For the year ended 31 December 2010, income tax expense of the Group was RMB0.5 million, compared with the income tax credit of RMB683 million for the year ended 31 December 2009, due to the fact that fertilizer market recovery led to overall profit and consequent income tax expenses recorded by the Group for the year ended 31 December 2010.

The subsidiaries of the Group were mainly 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 2010, profit for the year attributable to shareholders was RMB536 million, which was RMB1,980 million more than the loss for the year attributable to shareholders of the Company for the year of 2009. This was attributed to the fact that the fertilizer market gradually got rid of the impact of the financial crisis, the Group actively took operational measures, applied strict control on inventory risk, pushed for faster turnover rate, optimized the unified capital operations of both the domestic and overseas units, reduced finance cost and realized the Group's profit.

For the year ended 31 December 2010, net profit margin of the Group was 1.83%, and 1.49% excluding the effect of the change in fair value of the derivative component of convertible loan notes. The above net profit margin was calculated by dividing the net profit attributable to the Company's shareholders by the total revenue.

III. Expenditures

Selling and distribution expenses: For the year ended 31 December 2010, selling and distribution expenses were RMB763 million, down by RMB69 million or 8.32% from that of RMB833 million for the year of 2009. Such a decrease was mainly attributed to the reduction in logistics costs, such as costs for warehousing and storage, as the group applied strict control on inventory risk and pushed for faster turnover rate.

Administrative expenses: For the year ended 31 December 2010, administrative expenses were RMB500 million, or nearly unchanged from that of RMB492 million for the year of 2009.

Finance costs: For the year ended 31 December 2010, finance costs were RMB315 million, down by RMB137 million, or 30.27% over that of RMB451 million for the year 2009. The major reasons were i) the Group reduced capital demand by accelerating inventory turnover; and ii) the Group improved capital efficiency and reduced capital costs in different ways by leveraging on its integrated capital system both domestic and abroad.

IV. Other Income and Gains

For the year ended 31 December 2010, the Group's other income and gains amounted to RMB372 million, down by RMB399 million, or 51.77% from that of RMB772 million for the year of 2009. The major reason was a gain of RMB429 million realized from the disposal of shares of Hualu Hengsheng Chemical Co., Ltd and Luxi Chemical Industry Co., Ltd in 2009.

V. Other Expenses and Losses

For the year ended 31 December 2010, the Group's other expenses and losses amounted to RMB143 million, which represented a decrease of RMB682 million or 82.69% over that of RMB825 million for the year of 2009. The major reason is that the write-down of inventories in 2010 was RMB690 million less than that of 2009 as the fertilizer market recovered and price went up in 2010.

VI. Inventory Turnover

The inventory balance of the Group as at 31 December 2010 was RMB5,138 million, decreased by RMB691 million, or 11.85% from that of RMB5,829 million as at 31 December 2009. This was mainly attributable to that the Group applied strict control on inventory risk and pushed for faster turnover rate. Inventory turnover days [(Note)] decreased from 114 days in 2009 to 71 days in 2010.

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

VII. Trade and Bills Receivables Turnover

The balance of the Group's trade and bills receivables as at 31 December 2010 was RMB3,060 million, up by RMB284 million from that of RMB2,776 million as at 31 December 2009. This was mainly because of the increase of bills receivables.

As the 8.37% increase in turnover from the year in 2009 was lower than the increase percentage of the balance of the trade and bills receivables, trade and bills receivables turnover day [(Note)] increased from 19 days in 2009 to 27 days in 2010.

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 revenue, and multiplied by 360 days. (The trade and bill receivable balance excluded the bills discounted to the banks)

VIII. Interests in Jointly Controlled Entities

As at 31 December 2010, the balance of the Group's interests in jointly controlled entities was RMB589 million, down by 19.14% from that of RMB729 million as at 31 December 2009. The main reason was the Group disposed partial equity interest in Tianji JV and after the disposal, the remaining equity interest in Tianji JV was reclassified from interest in jointly controlled entities to available-for-sale investments as the Group no longer had joint control or significant influence on Tianji JV.

Management's Discussion and Analysis

IX. Interests in Associates

The balance of the Group's interests in associates as at 31 December 2010 was RMB7,192 million, which was mainly attributed to:

1. The balance of interest in Qinghai Salt Lake as at 31 December 2010 was RMB7,032 million, including RMB186 million of investment returns generated for the year ended 31 December 2010 and RMB57 million of dividends for the year 2009 received from Qinghai Salt Lake during the reporting period;

2. The balance of interests in Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. as at 31 December 2010 was RMB143 million, including an investment loss of RMB1 million recorded for the year ended 31 December 2010;

3. The balance of interests in Yara Sinochem Environmental Protection Co., Ltd. was RMB3 million, including a further investment of RMB2 million from Sinochem Fertilizer Company Limited ("Sinochem Fertilizer"), a subsidiary of the Group, and an investment loss of RMB1 million for the year ended 31 December 2010;

4. The balance of interests in Qingdao Ganghua Logistics Co., Ltd. and Tianjin North Sea Industrial Co, Ltd. was RMB2 million and RMB12 million respectively.

X. Available-for-sale Investments

As at 31 December 2010, the balance of the Group's available-for-sale investments was RMB267 million, while the balance as at 31 December 2009 was RMB177 million. The increase of RMB90 million or 50.69% was mainly attributable to:

1. Sinochem Fertilizer Company Limited, a subsidiary of the Group, disposed partial equity interest in Tianji JV, and the remaining equity interest in Tianji JV was measured at fair value in the amount of RMB85 million and reclassified as available-for-sale investments.

2. An appreciation of RMB5 million was realised as a result of fair value change in shares in the listed companies held by the Group as at 31 December 2010, including China XLX Fertiliser Ltd. and Qinghai Salt Lake Industry Group Co., Ltd.

XI. Long and Short-Term Loans

As at 31 December 2010, the balance of the Group's long-term and short-term loans was RMB6,566 million, down by RMB1,002 million or 13.24% over that of RMB7,569 million as at 31 December 2009. This was mainly attributable to that the Group enhanced selling and generated larger amount of operating cash flow after the recovery of fertilizer market, and thus reduced the amount of loans.

XII. Trade and Bills Payables

As at 31 December 2010, the balance of the Group's trade and bills payables was RMB2,576 million, increasing by RMB381 million over that of RMB2,194 million as at 31 December 2009. The main reason was that higher imported potash volume drove trade payables up. The balance of bills payables as at 31 December 2010 decreased by RMB671 million from that as at 31 December 2009, which was mainly attributable to adequate working capital resulted from recovered fertilizer market reduced the usage of Bills.

XIII. Convertible Loan Notes

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

As at 31 December 2010, the total face value of outstanding convertible loan notes was approximately HK$622 million, which remained unchanged from that as at 31 December 2009.

The Group arranged an independent assessment on the fair value of derivative components of the outstanding convertible loan notes on 31 December 2010. The gain arising from the change in fair value of derivative components of the convertible loan notes and the interests on the convertible loan notes was RMB98 million and RMB42 million, respectively, which were reflected in the consolidated statement of comprehensive income for the year.

XIV. Other Financial Indicators

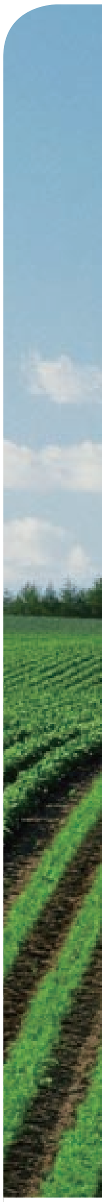
Basic earnings per share for the year ended 31 December 2010 was RMB0.0763, which grew by RMB0.2822 from the basic loss per share of RMB0.2059 in the year of 2009. Return on equity (ROE) for the year ended 31 December 2010 was 4.25%, increased by 16.13 percentage points from the return on equity (ROE) of -11.88% in the year of 2009. This was mainly attributable to that the group recovered from the losses in 2009 with the recovery of the domestic fertilizer market in 2010.

Table 3:

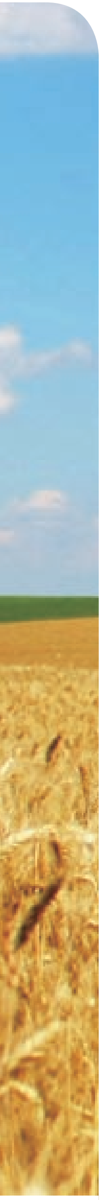
	2010	2009
Profitability		
Earnings (Loss) per share *(RMB)* *(Note 1)*	**0.0763**	(0.2059)
ROE *(Note 2)*	**4.25%**	(11.88%)

Note 1: Calculated on the basis of profit (loss) 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 profit (loss) attributable to the shareholders of the Company for the reporting period divided by equity attributable to the shareholders of the Company as at the end of the reporting period.



Management's Discussion and Analysis



As at 31 December 2010, the Group's current ratio was 1.21, and the debt-to-equity ratio was 55.27%, representing a stable financial structure.

Table 4:

	2010	2009
Solvency		
Current ratio *(Note 1)*	**1.21**	1.28
Debt-to-Equity ratio *(Note 2)*	**55.27%**	48.82%

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 receivables).

XV. 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 2010, cash and cash equivalents of the Group amounted to RMB223 million, which was mainly denominated in RMB 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	
	2010	2009
	RMB'000	*RMB'000*
Secured	**119,794**	2,172,643
Unsecured	**3,967,479**	2,919,422
Bonds		
Principal amount	**2,500,000**	2,500,000
Less: amortized transaction costs	**(20,915)**	(23,265)
Total	**6,566,358**	7,568,800

Table 6:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Carrying amount repayable		
Within one year	**2,993,369**	3,767,871
More than one year, but not exceeding five years	**1,083,904**	1,204,194
Over five years	**2,489,085**	2,596,735
Total	**6,566,358**	7,568,800

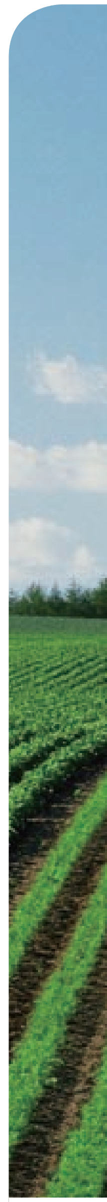
Table 7:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Fixed-rate borrowings	**2,831,783**	5,166,013
Variable-rate borrowings	**3,734,575**	2,402,787
Total	**6,566,358**	7,568,800

As at 31 December 2010, certain property, plant and equipment, prepaid lease payments and bills receivables with carrying amount of RMB172 million, RMB27 million and RMB65 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 2010, the Group had banking facilities of RMB39,750 million, including US$1,705 million and RMB28,458 million. The amount of utilized banking facilities was US$474 million and RMB2,589 million and that of unutilized banking facilities was US$1,231 million and RMB25,869 million.



XVI. Operation and Financial Risks

The Group's major operation risks: The recovery of the world economy is of great uncertainty; fertilizer price is 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 amount of the Group's foreign currency dominated assets and liabilities is immaterial. The fluctuations of exchange rates 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 impact 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 2010. 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.

XVII. Contingent Liabilities

As at 31 December 2010, the Group had no material contingent liabilities.

XVIII. Capital Commitment

Table 8:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment		
Contracted but not provided for	**26,117**	69,983
Authorized but not contracted for	**1,848,543**	149,981
Total	**1,874,660**	219,964

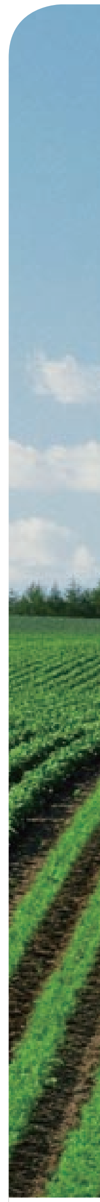
The Group plans to finance the above capital expenditure by internal resources. Besides the capital commitment stated above, the Group had no other material plans for major investment or capital asset acquisitions.

XIX. Major Investments and Disposal

As at 31 December 2010, the Group had no material investment expenditure or disposal.

XX. Human Resources Capital

As at 31 December 2010, the Group had about 11,052 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 49.




SINOCHEM


净含量:50k
中化化肥
地址:北京复兴门
免费服务

Chronicle of Events

January 2010

Four technological upgrading projects undertaken by three of the Group's subsidiaries won financial support from the state special fund for energy saving and emission reduction. These projects include the desulphurization project by Sinochem Pingyuan, the fly ash brickmaking project by Sinochem Changshan, the industrial ammonia phosphate and potassium dihydrogen phosphate project and the waste water treatment project by Sinochem Fuling.

The first phase of the Sinochem Fuling's waste heat recovery project went into operation, with the second phase commissioned in April 2010.

May 2010

The 200,000 tons feedstock coal briquetting project was successfully commissioned at Sinochem Pingyuan Chemical Company Limited.

The Group and the Agricultural Bank of China entered into cooperation to provide bank loans for the farmers by jointly issuing the "Agribank-Sinofert" banking cards to the farmers.

March 2010

A Framework Agreement for Strategic Cooperation was signed by the Company's ultimate controlling shareholder, Sinochem Group and the Ningxia Hui Autonomous Region People's Government. The Group would undertake the task of developing the project and push forward the work provided that the coal resource needed for the project is secured.

The Group entered into an agreement with China National Hybrid Rice R&D Center, and invited academician Prof. Yuan Longping as senior advisor. According to the agreement, the Group will provide strong support to Prof. Yuan's super hybrid rice program with a target yield of 900 kg/mu by utilizing high-quality agricultural potash fertilizer and other product advantages.

The Company released its 2009 annual report.

A nationwide campaign for the promotion of Sinochem brand potash for direct application was carried out in more than 300 agricultural counties. Nearly 1,000 country fair roadshows were held to publicize scientific farming and fertilizer application, which were well received by the farmers.

June 2010

Both the desulphurization project and the polypeptide urea line went into successful operation at Sinochem Pingyuan Chemical Company Limited.

The Company held its 2010 annual general meeting.

The new state standards for compound (complex) fertilizers, which was jointly drafted by the National Fertilizer Quality Supervision Center (Shanghai), the Group and other organizations, went into effect.

The first Fert-Mart Superstore of the Group, a modern warehouse style store for fertilizers and other agricultural inputs, was opened in Pingdu City, Shandong Province.

The Company released the Sinofert Social Responsibility Report 2009.

Chronicle of Events

July 2010

Mr. Feng Zhibin succeeded Mr. Du Keping as the executive director and CEO of the Company.

August 2010

The Company released its 2010 Interim Results.

September 2010

Mr. Feng Zhibin, Chief Executive Officer, led the delegation for the attendance of the world fertilizer meeting hosted by the Fertilizer Institute, meeting the representatives from more than 40 international fertilizer producers, traders and industrial intelligent companies, and visited the fertilizer distribution centers and agronomic service labs of Agrium.

The Company attended the national special tender for rice additional fertilization and maturity promotion, provided fertilizer for the campaign of anti disasters and food preservation.

The subsidiary enterprise of the Company, Yantai Sinochem Crop Nutrition Ltd., developed trace element fertilizers and other various types of featured fertilizers.

October 2010

The Group attended the tender of the national fertilizer commercial buffer stock and phosphate fertilizer special stock for the year 2010/2011. The Group has accomplished the fertilizer stock tasks for six consecutive years starting from 2004, making contribution for stabilizing fertilizer market supply and ensuring agricultural production and farmers' income increasing.

The Group signed an MOU with Canpotex for the supply of potash fertilizer from 2011 to 2013.

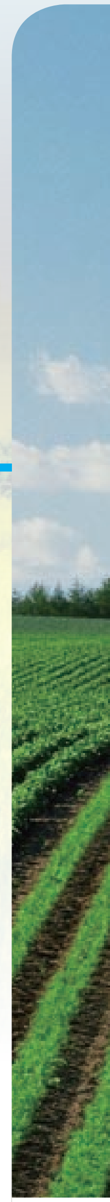
November 2010

The Group joined International Zinc Institute, strive to develop and produce zinc added fertilizers, resolve the zinc deficiency encountered by China agriculture and human health.

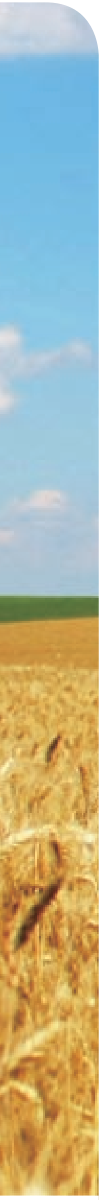
December 2010

The Company signed an MOU with Arab Potash Company for the supply of potash fertilizer from 2011 to 2013.

The Company signed a framework agreement with Shandong Feicheng Mining Group on developing Hushan Coal Mine in Inner Mongolia Autonomous Region.



Directors and Senior Management



Directors

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

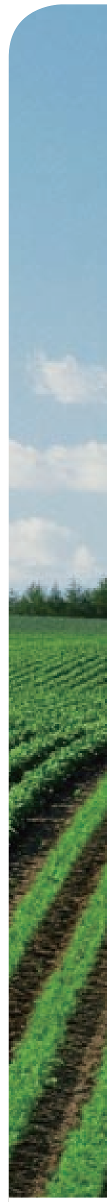
Mr. LIU De Shu, aged 58, joined the Company as the Chairman of the Board in April 2004. Mr. Liu graduated from Tsinghua University in the PRC in April 1979 and from China Europe International Business School with an EMBA in 1998. In March 1998, Mr. Liu was appointed as the President and the Chief Executive 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. 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. In addition, Mr. Liu has been a chairman and a non-executive director of Far East Horizon Limited (in which Sinochem Group is its substantial shareholder) since December 2010, whose shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 3360).

Mr. Liu has over 26 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”. Currently, 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. FENG Zhi Bin – Executive Director and Chief Executive Officer

Mr. FENG Zhi Bin, aged 47, joined the Company as Executive Director and Chief Executive Officer in July 2010. Mr. Feng graduated from Renmin University of China with a qualification of master of philosophy and subsequently obtained an EMBA degree from China Europe International Business School. Mr. Feng has around 20 years of experience in corporate management and operations. Prior to his appointment as Executive Director and Chief Executive Officer of the Company, Mr. Feng was appointed as the assistant to president of Sinochem Group in July 2000 and was promoted to the position of vice president of Sinochem Group in January 2006. Mr. Feng has been appointed as director of Sinochem Corporation since May 2009. During 2008 to 2010, Mr. Feng had been appointed as chairman and general manager of Sinochem Lantian Co., Ltd., and director and chairman of the board of Zhejiang Int’l Group Co., Ltd., an affiliate of Sinochem Group listed on the Shenzhen Stock Exchange (stock code: 000411). During the last 10 years, Mr. Feng has also held various positions with the subsidiaries and affiliates of Sinochem Group overseeing the management of the Sinochem Group’s investment business, fluorine chemicals business, leasing and non-banking financial businesses including trust and fund management. Currently, Mr. Feng also holds directorships and senior management positions with various subsidiaries and/or affiliates of the Group.

Prior to 2000, Mr. Feng was the deputy general manager of the corporate management department, general manager of the human resources department and the corporate development department of China National Machinery Import and Export Corporation. He then became in charge of Genertec Industrial Co. Ltd. and had worked for the Policy Research Office of the CPC Organisation Department. During 1991 to 1993, Mr. Feng had first served as the deputy secretary of the CPC Committee of Dengzhou Town, Penglai, Shandong Province and then subsequently served as the deputy director of the Economic Development Bureau of the Economic Development District of Yantai Municipality. Mr. Feng was an assistant lecturer and a lecturer of Renmin University of China from July 1986 to February 1990.



Mr. Harry YANG – Executive Director and Deputy General Manager

Mr. Harry YANG, aged 48, is an Executive Director and Deputy General Manager of the Company, mainly responsible for overseeing the Company's investor relations, strategic development, legal, information technology and logistic management. He is also a member of the Nomination Committee and the Remuneration Committee of the Company. 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 had served Sinochem Group for more than 20 years. He possesses years of experiences in international trade and fertilizer business with a deep understanding of the international fertilizer market.

Mr. YANG Lin – Non-executive Director

Mr. YANG Lin, aged 47, joined the Company as Non-executive Director in August 2010. Mr. Yang graduated from Tianjin University of Commerce with a bachelor's degree in Economics majoring in commercial enterprise management. He completed a course of enterprise management in University of Stuttgart in Germany from 1990 to 1993 and is currently studying an EMBA course at Xiamen University. Mr. Yang has over ten years' experience in enterprise treasury management. Mr. Yang worked as an assistant manager at Siemens AG and a product manager at Wella AG during 1993 to 1994. He joined Sinochem Group in 1994 and had held various positions, including assistant to general manager of the planning and financial department, deputy manager of the finance department, deputy general manager of the merger and acquisition department, general manager of the treasury department, deputy general accountant of Sinochem Group, and deputy CFO of Sinochem Corporation. Mr. Yang is currently the general accountant of Sinochem Group and the chief financial officer of Sinochem Corporation. He also holds directorships and senior management positions with various subsidiaries and/or affiliates of Sinochem Group. Mr. Yang was a supervisor of China State Construction Engrg. Corp. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601668), during 2007 to 2010. Since October 2009, Mr. Yang has been a non-executive director of Far East Horizon Limited (in which Sinochem Group is its substantial shareholder), whose shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 3360). In addition, Mr. Yang has been a director of Sinochem International Corporation, a subsidiary of Sinochem Group listed on the Shanghai Stock Exchange (stock code: 600500) since June 2010.

Directors and Senior Management

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 60, joined the Company as a Non-executive Director in July 2005. He is also a member of the Nomination Committee and the Remuneration Committee of the Company. Dr. Dowdle is currently the President of PCS Sales (USA) Inc., a wholly-owned subsidiary of Potash Corporation of Saskatchewan Inc. ("PotashCorp"). He is a board member of Canpotex Limited, an export marketing association composed of the three potash producers (including PotashCorp) in Saskatchewan, Canada, and he is also a board member of Phosphate Chemicals Export Association, Inc., an export marketing association composed of two phosphate fertilizer companies through which member companies market and sell phosphate fertilizers, of which PotashCorp is a member. Dr. Dowdle obtained a Bachelor of Arts degree from Brown University and a Ph.D. in Agronomy and Soil Science from the University of Hawaii. While completing his Ph.D., Dr. Dowdle lived in China and carried out advance field research at Central China Agricultural University in Wuhan, China. Dr. Dowdle has over 25 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.

Mr. Wade FETZER III – Non-executive Director

Mr. Wade FETZER III, aged 73, joined the Company as a Non-executive Director in March 2006. 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 area 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 50, 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 19 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.

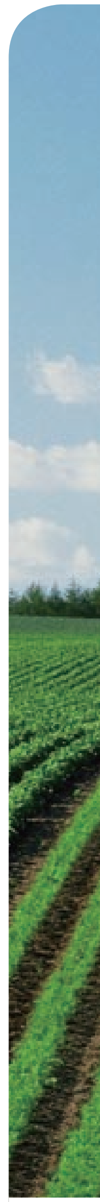
Dr. TANG Tin Sek – Independent Non-executive Director and the Chairman of Remuneration Committee

Dr. TANG Tin Sek, aged 52, was appointed as an Independent Non-executive Director of the Company in April 2000. 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 30 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.

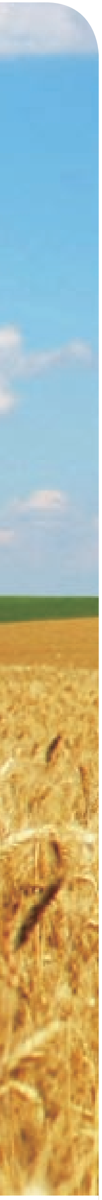
Mr. TSE Hau Yin, Aloysius – Independent Non-executive Director and the Chairman of Audit Committee

Mr. TSE Hau Yin, Aloysius, aged 63, was appointed as an Independent Non-executive Director of the Company in June 2007. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Tse is a graduate of the University of Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president and the current Chairman of the Audit Committee of the HKICPA. Mr. Tse joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is also a member of the International Advisory Council of The People's Municipal Government of Wuhan.



Directors and Senior Management

Other than the directorship in the Company, currently, Mr. Tse is also an independent non-executive director of 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. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the Main Board of The Stock Exchange of Hong Kong Limited, from 2004 to 2010.



Senior Management

Mr. WANG Chuan – Deputy General Manager

Mr. WANG Chuan, aged 57, is the Deputy General Manager of the Company. Mr. Wang graduated from Central Radio & TV University of China in 1985 with an associate degree in Chinese Language & Literature. In February 1977, Mr. Wang joined Fuling Chemical Industry Co., Ltd. ("Fuling Chemical"), which was acquired by Sinochem Group in April 2004 and renamed as Sinochem Fuling Chongqing Chemical Industry Co., Ltd., and had served as the Deputy Director of the phosphoric acid workshop, Education Chief, and the Deputy General Manager of Fuling United Phosphate Factory and the Deputy General Manager of Fuling Chemical Industry Co. Since 1993, Mr. Wang had been appointed as the General Manager of Fuling Chemical. Mr. Wang was awarded by the State Council of China the honor of the specialist entitled to the Governmental Special Allowance in June 2000. He was also awarded the honor of Chinese National Labor Models in 2005, Chongqing Excellent Member of Chinese Communist Party in 2006, and Sinochem Labor Models in 2007. In 2008, Mr. Wang was awarded by Sinochem Group the honor of the First Group of Senior Specialists. Mr. Wang joined the Group in December 2010 and was promoted to the present position in January 2011.

Mr. CHEN Feng – Chief Financial Officer

Mr. CHEN Feng, aged 39, 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 in 2005. Mr. Chen joined the Company in March 2009 and was promoted to the present position.

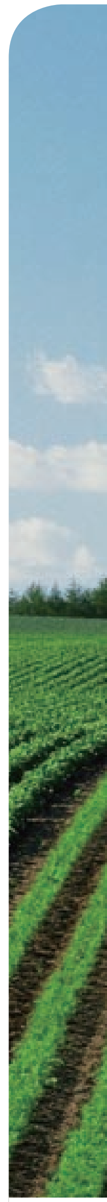
Mr. WANG Tie Lin – Deputy General Manager & Director of Human Resources

Mr. WANG Tie Lin, aged 43, 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, which Sinochem Group is a shareholder, in 2003. Mr. Wang joined the Group in May 2006 as deputy general manager of the Company and deputy general manager of Sinochem Fertilizer Company Limited. In August 2009, he was concurrently appointed as Director of Human Resources.

Directors and Senior Management

Mr. FENG Ming Wei – Deputy General Manager

Mr. FENG Ming Wei, aged 48, 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.



Mr. DUAN Changsheng – Deputy General Manager

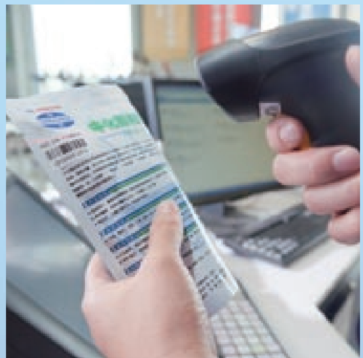
Mr. DUAN Changsheng, aged 39, is the Deputy General Manager of the Company. Mr. Duan graduated from the Department of Chemistry of Nankai University in 1993 with a bachelor's degree in engineering. Mr. Duan joined Sinochem Group in 1993 and later joined Sinochem Fertilizer Company Limited in July 1998. 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. LI Yangjing – Deputy General Manager

Mr. LI Yangjing, aged 38, is Deputy General Manager of the Company. Mr. Li graduated from Shenyang Institute of Chemical Technology in 1995 with a bachelor's degree in Chemical Engineering. Mr. Li joined Sinochem Group in 1995 and had served as the general manager of the first Investment Management section, Property Management Department in China Chemical Import and Export Corporation, the general manager of Hainan Pacific Ocean Petroleum Industry Company Ltd., the chief of Southwest Office of Sinochem Group, the general manager of Investment Department and the general manager of Engineering Management Department of Sinochem Group. Mr. Li joined the Company in November 2010 and was promoted to the present position.

Mr. LV Wen – Deputy General Manager

Mr. LV Wen, aged 36, is Deputy General Manager of the Company. Mr. Lv graduated from Ocean University of China in 1998 with a bachelor's degree in international trade, and subsequently joined Yantai Agricultural Production Technology Service Center. Mr. Lv joined Sinochem Fertilizer Company Limited in December 2000 and had served as manager of a branch office, manager of business department and other positions. Mr. Lv was appointed as the assistant general manager of Sinochem Fertilizer Company Limited in September 2009, and was promoted to the present position in November 2010.

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, 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 code provisions.

For the year ended 31 December 2010 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 the deviations from the code provisions A.1.8 and E.1.2 as described below.

The code provision A.1.8 of the Code on Corporate Governance Practices stipulates that, a board meeting should be held if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material. In addition, independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting. During the year, the Board approved several connected transactions and continuing connected transactions by circulation of written resolutions in lieu of physical board meeting, for which certain Directors who are nominated by the ultimate controlling or substantial shareholders of the Company, were regarded as having material interests therein. As the Directors of the Company are living and working in different countries which are far apart, adoption of written resolutions in lieu of physical board meetings allows the Board to make a decision relatively quicker in response to the rapid change in the fertilizer markets. Before formal execution of the written resolutions, the Directors had discussed the matters via emails and made amendments to the transactions as appropriate.

Apart from the above, the Company had also deviated from code provision E.1.2. The code provision E.1.2 of the Code on Corporate Governance Practices provides 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 9 June 2010 ("2010 AGM"), Mr. Liu De Shu, Chairman of the Board, did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2010 AGM, the Chairman of the Board authorized and the Directors attended the meeting elected Mr. Du Ke Ping, the then 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 2010 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.

Corporate Governance Report

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 relevant employees. No incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

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 37 of this annual report.

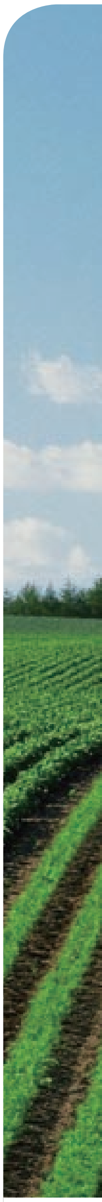
On 15 July 2010, Mr. Du Ke Ping resigned and Mr. Feng Zhi Bin was appointed by the Board as an Executive Director and Chief Executive Officer of the Company. In addition, on 28 August 2010, Mr. Chen Guo Gang resigned and Mr. Yang Lin was appointed by the Board as a Non-executive Director of the Company.

Executive Directors:

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

Non-executive Directors:

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



Corporate Governance Report

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 safeguard 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 2010, Mr. Liu De Shu, Mr. Feng Zhi Bin and Mr. Yang Lin 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.

In addition, Dr. Stephen Francis Dowdle, the Company's Non-executive Director, 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.

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

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.

Mr. Feng Zhi Bin and Mr. Yang Lin were appointed by the Board as Directors of the Company on 15 July 2010 and 26 August 2010 respectively to fill the then casual vacancies. Both Mr. Feng Zhi Bin and Mr. Yang Lin were subsequently elected by shareholders at the special general meeting of the Company held on 9 December 2010, the first general meeting after their appointment. Currently, the terms of appointment of Mr. Feng Zhi Bin as Executive Director and Chief Executive Officer of the Company ends on 27 July 2011; while the terms of appointment of Mr. Yang Lin as Non-executive Director of the Company ends on 25 August 2012. Both of them are also subject to retirement and re-election in accordance with the relevant provisions as set out in the bye-laws of the Company.

Division of the Responsibilities between the Board of Directors and the Management

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

Responsibilities of Chairman and Chief Executive Officer

The Board has authorized 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. Feng Zhi Bin, 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 also responsible for overseeing the preparation of the annual consolidated financial statements which ensures a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2010, 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;

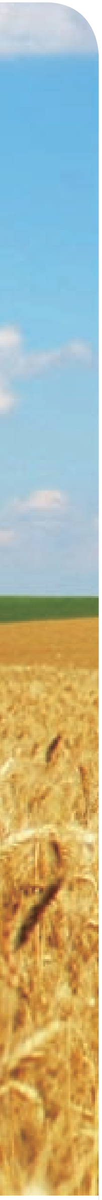
3. made judgements and estimates that are prudent and reasonable, and ensured the consolidated financial statements are prepared on a going concern basis; and

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 2010, the Board held a total of five meetings to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, investment and acquisition projects, change of Directors, 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. Feng Zhi Bin	*(Chief Executive Officer)*	(appointed on 15 July 2010)	3/3 *(Note 1)*
Mr. Du Ke Ping	*(Former Chief Executive Officer)*	(resigned on 15 July 2010)	3/3
Mr. Harry Yang			5/5
Non-executive Directors			
Mr. Liu De Shu	*(Chairman)*		5/5
Mr. Yang Lin		(appointed on 26 August 2010)	2/2 *(Note 2)*
Dr. Chen Guo Gang		(resigned on 26 August 2010)	2/4
Dr. Stephen Francis Dowdle			5/5
Mr. Wade Fetzer III			4/5
Independent Non-executive Directors			
Mr. Ko Ming Tung, Edward			5/5
Dr. Tang Tin Sek			5/5
Mr. Tse Hau Yin, Aloysius			5/5

Note 1: Mr. Feng Zhi Bin attended the meeting on 15 July 2010 after the Board had approved his appointment as an Executive Director and Chief Executive Officer of the Company.

Note 2: Mr. Yang Lin attended the meeting on 26 August 2010 after the Board had approved his appointment as a Non-executive Director of the Company.

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;

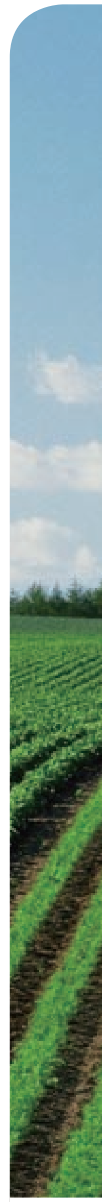
3. to develop and implement policies regarding the provision of non-audit services by the external auditor;

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;



Corporate Governance Report

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.

The Audit Committee met four times during the year ended 31 December 2010. 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 result announcements, 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 2010;

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

5. reviewed various amendments of the Listing Rules on connected transactions and the newly implemented internal control documents in the People's Republic of China, and assessed their effects on the Company;

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

7. reviewed and commented on the Company's corporate governance practices and the Group's financial control (including the adequacy of resources, staff's qualifications and experience in the Group's accounting and financial reporting functions), internal control and risk management systems and made sufficient communication with the management on related matters;

8. discussed the Group's internal audit plan and IT audit work with the Internal Audit Department;

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

10. reviewed the continuing connected transactions and connection transactions conducted in 2010.

Remuneration Committee

A remuneration committee was established by the Board in August 2005 (the "Remuneration Committee") with its written terms of reference. On 26 August 2010, Mr. Harry Yang, Executive Director of the Company, was appointed by the Board as an additional member of the Remuneration Committee. After such appointment, the Remuneration Committee comprises five 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, Dr. Stephen Francis Dowdle and Mr. Harry Yang. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director and Mr. Harry Yang who is an Executive Director, the remaining three members are all Independent Non-executive Directors.

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 twice during the year ended 31 December 2010. 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 meetings were as follows:

		Attendance rate
Independent Non-executive Directors		
Dr. Tang Tin Sek *(Chairman)*		2/2
Mr. Ko Ming Tung, Edward		2/2
Mr. Tse Hau Yin, Aloysius		2/2
Non-executive Director		
Dr. Stephen Francis Dowdle		2/2
Executive Director		
Mr. Harry Yang	(appointed on 26 August 2010)	0/0 *(Note)*

Note: No meeting of the Remuneration Committee was held after the appointment of Mr. Harry Yang as a member of the Remuneration Committee on 26 August 2010.

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

1. approved the proposal on performance bonus for Executive Directors and senior management for the year 2009;

2. approved the remuneration package (including cash compensation and bonus) of Executive Directors and senior management for the year 2010;

3. made recommendation to the Board in respect of the compensation proposal for Non-executive Directors and Independent Non-executive Directors for the year 2010;

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

5. made recommendation to the Board in respect of the treatment of outstanding share options for a Director upon his resignation; and

6. approved the re-appointment of remuneration consultant.

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 a balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation to employees offered by the Group varies with 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 determined 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 executives, is involved in deciding his/her own emoluments.

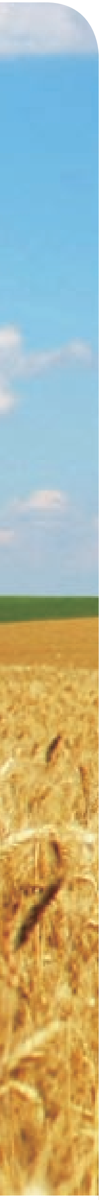
The Group reviews its remuneration policy annually and engages professional consultant, if necessary, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 31 December 2010, the Group had about 11,052 full-time employees (including those employed by controlled entities), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also provided certain non-monetary benefits, such as training, to its employees. In 2010, the Group provided 54,355 hours of training in aggregate for about 5,356 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, improving 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. On 26 August 2010, Mr. Harry Yang, Executive Director of the Company, was appointed by the Board as an additional member of the Nomination Committee. After such appointment, the Nomination Committee comprises five 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, Dr. Stephen Francis Dowdle and Mr. Harry Yang. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director and Mr. Harry Yang who is an Executive Director, 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 twice during the year ended 31 December 2010. The Nomination Committee had also passed a proposal by circulation of written resolutions during the year, and had presented the relevant proposal to the Board for review or approval, where applicable, in subsequent board meeting. The attendance rate of each of the committee members at the aforesaid meetings were as follows:

		Attendance rate
Independent Non-executive Directors		
Mr. Ko Ming Tung, Edward *(Chairman)*		2/2
Dr. Tang Tin Sek		2/2
Mr. Tse Hau Yin, Aloysius		2/2
Non-executive Director		
Dr. Stephen Francis Dowdle		2/2
Executive Director		
Mr. Harry Yang	(appointed on 26 August 2010)	0/0 *(Note)*

Note: No meeting of the Nomination Committee was held after the appointment of Mr. Harry Yang as a member of the Nomination Committee on 26 August 2010.

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;

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

5. reviewed the background and qualifications of Mr. Feng Zhi Bin and Mr. Yang Lin, and recommended to the Board on the appointment of Mr. Feng Zhi Bin as an Executive Director and Chief Executive Officer of the Company as replacement for Mr. Du Ke Ping upon his resignation, and the appointment of Mr. Yang Lin as a Non-executive Director of the Company as replacement for Mr. Chen Guo Gang upon his resignation.

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 2010 and the corresponding audit fees estimation.

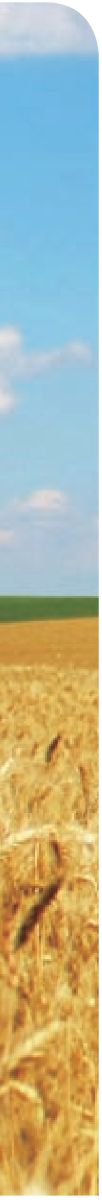
The audit fees paid or payable by the Group to the external auditor in respect of its audit and other non-audit services for the year ended 31 December 2010 were as follows:

	For the year ended 31 December	
	2010	2009
Nature of services	***RMB'000***	*RMB'000*
Audit service (including audit of financial statements and other audit related projects)	**4,812**	5,274
Tax related service	**240**	136
Total	**5,052**	5,410

Financial Management

Being an essential component of corporate governance, the Group continues to pay attention to the continuing improvements in financial management. In 2010, the Group continued to enhance the financial management in the following aspects: continuously adapting to the changes in external environment, optimizing capital management and debt structure; leveraging integrated capital management to decrease capital cost; improving performance evaluation system and promoting the budget management and performance evaluation of production subsidiaries and distribution network to enhance ability of operation monitoring and financial management, as well as improving quality and efficiency of financial personnel and team-building 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.

Corporate Governance Report



In 2010, to cope with the follow-up impact of global financial crisis, the Group overcame the negative impact of declining results and maintained stable banking facilities of about RMB40 billion through strengthened cooperation with banks, meeting the capital needs of the Group's business growth and strategic acquisitions. At the same time, by following closely with 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 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.

In 2010, taking "to standardize performance evaluation process, improve performance evaluation report and enhance performance evaluation ability" as the major task, the Group further perfected decision-oriented performance evaluation system and extended it to production subsidiaries and branches, better helping decision making.

In 2010, the Group also tightened the centralized management of the financial personnel, paid much attention to personnel rotation and recruited talents. The financial team's awareness of corporate culture and policies as well as their executive ability were further enhanced. Personalized training programs were introduced for different positions to arouse the working enthusiasm of the financial personnel. The Group further improved team-building at grass-root level, enhancing staff quality.

Internal Control

In compliance with the requirements set out in code 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. Guided by Basic Requirement of Corporate Internal Control and related guidance co-released by National Audit Office of the PRC, Ministry of Finance, China Securities Regulatory Commission, China Banking Regulatory Commission and China Insurance Regulatory Commission, the Board conducted reviews on the Group's internal control and risk management systems in compliance with Listing Rules and COSO Internal Control Framework during the year. The review covered all significant aspects including financial control, operational control, compliance with regulations and risk management functions.

Work on Internal Control and Risk Management

During the year, deeper impact of global financial crisis was yet to be overcome, world economy did not enter into a virtuous cycle of stable growth and systemic and structural risks remained outstanding. Global fertilizer industry integration trend was more obvious and oversupply in domestic market would continue to exist in the long run. The internal control and risk management system of the Group faced more severe tests.

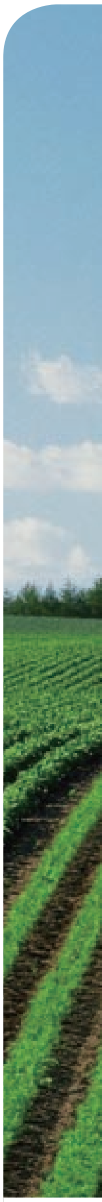
Against this severe operational situation, the management of the Group reviewed risk strategy and adopted proactive measures: enhanced resource acquisition efforts in terms of resource development to secure product supply of the Group's sustainable development; pushed forward energy saving and raw material consumption reduction, technology upgrading, new product R&D and compound production subsidiaries integration in terms of production subsidiary management to improve competitiveness in the industry; improved professional management of product procurement and customer service and carried out operation management mechanism reform of distribution network in terms of marketing to improve the level of marketing service.

The Group has committed to perfecting internal control and risk management system for years and robust corporate governance structure has developed to be the foundation of internal control and risk management system. The Group not only complied with relevant laws and regulations in Hong Kong and international advanced internal control standards, but also paid attention to new regulations released by domestic regulatory organizations. Guided by Basic Requirement of Corporate Internal Control and related guidance, the Group carried out comprehensive review on key factor design and execution efficiency of internal control environment, risk assessment, controlling activity, information and communication and internal supervision and summarized related information including internal control assessment progress, internal control deficiency identification and internal control efficiency conclusion.

The review adopted ways of questionnaire, on-site training and examination, covering Beijing Headquarters, distribution network, production subsidiaries and overseas organizations. The major reviewed points included:

- internal control environment – organization structure, development strategy, human resource, social responsibility and corporate culture
- risk assessment – controlling target setting, risk identification, risk analysis and risk response
- controlling activity – financial activity, procurement activity, asset management, sales activity, R&D, collateral business, engineering project, comprehensive budget, contract management
- information and communication – information collection and transfer, anti-embezzlement mechanism, information system
- internal supervision – Audit Committee, internal audit department

After the comprehensive and systematic review stated above, the Group believed that the internal control and risk management system effectively provided basic guarantee for the integration strategy implementation and business results recovery. With the reference of Basic Requirement of Corporate Internal Control and related guidance, the Group confirmed internal control improvement direction, pushing forward strategic transformation and better dealing with foreign and domestic environment changes.



Corporate Governance Report

Internal Supervision System Building

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. 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.

In the year of 2010, the Group enhanced the ability of disciplinary inspection and supervision through improving internal supervision system, and sticked to the principle of combining punishment and prevention in order to eliminate any internal corruption at the beginning. The Group promotes honesty and integrity and pushes forward a culture of integrity to build moral defending line supporting the Group's smooth implementation of strategic transformation.

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 relations, 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 the Management of Information Disclosure" of the Company.

In 2010, the work related to investor relations of the Company mainly consisted of the following:

1. In March 2010, the Company announced its 2009 annual results, held press conference and analysts meeting, and conducted road-shows in subsequent dates which involved communications with investors from America, Europe and Asia.

2. In August 2010, the Company announced its 2010 interim results, held press conference and analysts meeting.

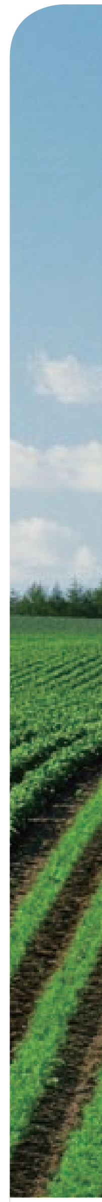
Besides results announcement and road-shows, the Group participated in several investor meetings organized by investment banks. In order to keep close contacts and smooth communications with investment and analysis institutions, such as fund managers and analysts, communications including one-to-one 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 2010. The Group has also invited investors to visit the Group's distribution network for on-site visit 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 the Management of Information Disclosure" of the Company, delivering important announcements to all shareholders. The Company also updated the website continuously to disclose basic information of the Group.

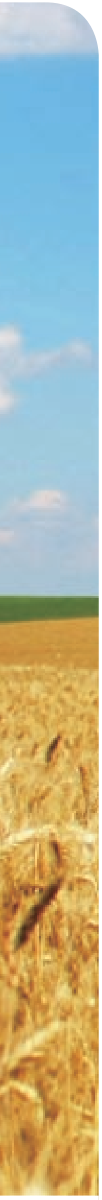
Health, Safety and Environment

In 2010, the Group adhered to the principle of "safety first, prevention first, and comprehensive harnessing" and seriously implemented safety investment, training and supervision and examination required by the government, aiming to maintain the record of zero instance of fatal accident, environment pollution accident and occupational disease inductive accident and the ratio of mild injury was under 3%. The Group maintained stable overall condition in respect of HSE.

Based on the confirmation of safety production and responsibility of energy saving and emission reduction for all entities, the Group organized several activities including safety production month, safety standardization system construction and working team safety management construction and established systems including HSE working quarterly meeting and job rotation for grass-roots safety management staff to the headquarter. In order to enhance emergency management, the Group set up emergency commanding center equipped with related facilities and organized emergency drill with subsidiary enterprises. The Group continued to increase investment in occupational health, safe production and environmental protection of the Group's subsidiary enterprises, in order to improve their essential safety. The Group strengthened HSE training, improved staff's consciousness of safety management through safety production video conferences and comprehensive safety rectifications.



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 2010.

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 88 of the annual report.

The Board recommended the payment of a final dividend of HK$0.0110 (equivalent to approximately RMB0.0094 per share for the year ended 31 December 2010 (2009: Nil) to the shareholders, estimated to be HK$77,230,000 (equivalent to approximately RMB65,715,000 and the retention of the remaining profit in reserves.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 176 of the annual report.

Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's total turnover for the year 2010. The aggregate purchase attributable to the Group's five largest suppliers represented around 20% of the Group's total purchases for the year 2010, with the single largest supplier contributing to 9% of the Group's total purchases for the year. A substantial shareholder of the Company, Potash Corporation of Saskatchewan Inc., holds one-third equity interest in the largest supplier of the Group.

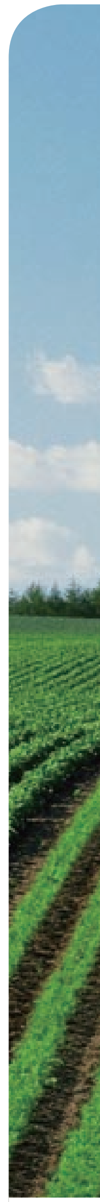
Save for the above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% equity interest of the Company), had any interest in any of the Group's five largest customers or suppliers.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year are set out in note 15 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.



Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 91 to 92 of the annual report.

Distributable Reserves of the Company

As at 31 December 2010, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$77,230,000 (equivalent to approximately RMB65,715,000) (2009: Nil).

Donations

During the year ended 31 December 2010, the Group had made approximately RMB80,000 charitable donations in cash.

Directors

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

Executive Directors

Mr. Feng Zhi Bin *(Chief Executive Officer)*	(appointed on 15 July 2010)
Mr. Du Ke Ping *(Former Chief Executive Officer)*	(resigned on 15 July 2010)
Mr. Harry Yang	

Non-Executive Directors

Mr. Liu De Shu *(Chairman)*	
Mr. Yang Lin	(appointed on 26 August 2010)
Dr. Chen Guo Gang	(resigned on 26 August 2010)
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. Harry Yang, Dr. Stephen Francis Dowdle, Mr. Wade Fetzer III and Mr. Tse Hau Yin, Aloysius will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

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 by the Group 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/update of information of Directors are as follows:

Mr. Liu De Shu, Chairman and Non-executive Director of the Company, was appointed as a chairman and a non-executive director of Far East Horizon Limited (in which Sinochem Group is its substantial shareholder) during the year, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 3360) on 30 March 2011.

Besides, Mr. Yang Lin, Non-executive Director of the Company, has been a non-executive director of Far East Horizon Limited (in which Sinochem Group is its substantial shareholder) since October 2009, whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 3360) on 30 March 2011. During the year, Mr. Yang Lin resigned as a supervisor of China State Construction Engrg. Corp. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601668).

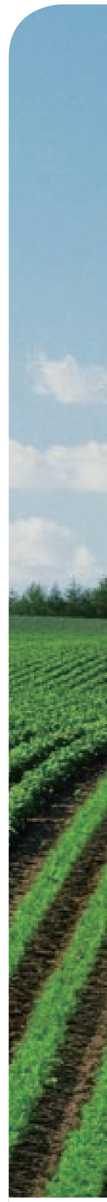
Dr. Stephen Francis Dowdle, a Non-Executive Director of the Company, was appointed as a board member of Canpotex Limited, an associate of Potash Corporation of Saskatchewan Inc. ("PotashCorp") (which is 33.33% owned by PotashCorp), during the year. PotashCorp is a substantial shareholder of the Company.

In addition, as determined by the Remuneration Committee in the Remuneration Committee meeting held on 23 March 2011, Mr. Feng Zhi Bin, the Executive Director and Chief Executive Officer of the Company, and Mr. Harry Yang, an Executive Director of the Company, were entitled to the bonus payment of RMB322,060 and RMB407,660, respectively, based on their individual performance in 2010. For information in relation to the 2010 emoluments of the Directors of the Company, please refer to note 11 of the consolidated financial statements.

Directors' Service Contracts

During the year 2008, Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, renewed his service contract with the Company for a term of another three years, up to 27 July 2011. On 15 July 2010, Mr. Feng Zhi Bin, Executive Director and Chief Executive Officer of the Company, entered into a service contract with the Company for a term of office commencing from 15 July 2010 until 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. Feng Zhi Bin or Mr. Harry Yang prior to its expiry, Mr. Feng Zhi Bin or Mr. Harry 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 2010, 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 2010, 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, eligible employees and other eligible participant. 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 33 to the consolidated financial statements.

ii. As at 31 December 2010, 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	211,900	211,900
Harry Yang	Beneficial owner	210,600	210,600
Wade Fetzer III	Beneficial owner	128,000	128,000

Directors' Report

iii. The movements in the Company's share options granted to Directors, employees and other eligible participant under both the Old Share Option Scheme and the New Share Option Scheme during the year ended 31 December 2010 were as follows:

Old Share Option Scheme

				Number of share options			
Grantees	**Date of grant**	**Exercisable period** *(Note 1)*	**Exercise price** *HK$*	**Outstanding at 1 January 2010**	**Exercised during the year** *(Note 2)*	**Lapsed during the year**	**Outstanding at 31 December 2010**
Directors							
Liu De Shu	23 January 2006	23 January 2008 – 22 January 2012	1.672	609,900	(608,000)	–	1,900
Du Ke Ping *(Note 4)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	3,789,900	–	(3,180,000)	609,900
Chen Guo Gang *(Note 5)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	474,600	(474,000)	(600)	–
Harry Yang	23 January 2006	23 January 2008 – 22 January 2012	1.672	474,600	(474,000)	–	600
Employees							
Employees	23 January 2006	23 January 2008 – 22 January 2012	1.672	6,274,600	(3,096,200)	–	3,178,400
Other eligible participant							
Former director *(Note 6)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	474,600	(474,600)	–	–
				12,098,200	(5,126,800)	(3,180,600)	3,790,800

Note 1: Two-thirds of the total number of share options granted to each director, employee and eligible participant 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$4.55.

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

Note 4: Mr. Du Ke Ping resigned as Executive Director and Chief Executive Officer of the Company effective on 15 July 2010.

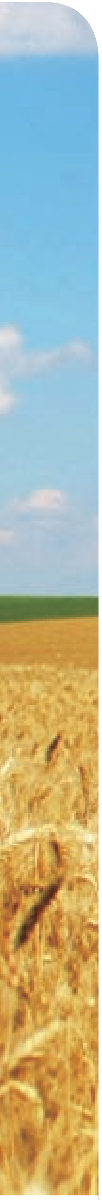
Note 5: Dr. Chen Guo Gang resigned as Non-executive Director of the Company effective on 26 August 2010.

Note 6: Former director is Mr. Song Yu Qing, who resigned as a director of the Company effective on 16 November 2009.

New Share Option Scheme

				Number of share options			
Grantees	**Date of grant**	**Exercisable period** *(Note 7)*	**Exercise price** *HK$*	**Outstanding at 1 January 2010**	**Exercised during the year** *(Note 8)*	**Lapsed during the year**	**Outstanding at 31 December 2010**
Directors							
Liu De Shu	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	(210,000)	210,000
Du Ke Ping *(Note 10)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	(210,000)	210,000
Chen Guo Gang *(Note 11)*	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	–	(210,000)	210,000
Wade Fetzer III	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	(128,000)	128,000
Employees							
Employees	28 August 2007	28 August 2009 – 27 August 2013	4.990	6,171,268	(428,490)	(3,528,050)	2,214,728
Other eligible participant							
Former director *(Note 12)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	(128,000)	128,000
				8,199,268	(428,490)	(4,670,050)	3,100,728

Directors' Report



Note 7: The exercisable period of the share options granted to each director, employee and eligible participant 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 are exercisable on or after 28 August 2010; and

(iii) a further 25% of the share options granted are 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 had been forfeited on 28 August 2010.

All unexercised share options will expire on 28 August 2013.

Note 8: 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$5.34.

Note 9: No share options under the New Share Option Scheme were granted or cancelled during the year.

Note 10: Mr. Du Ke Ping resigned as Executive Director and Chief Executive Officer of the Company effective on 15 July 2010.

Note 11: Dr. Chen Guo Gang resigned as Non-executive Director of the Company effective on 26 August 2010.

Note 12: Former director is Mr. Song Yu Qing, who resigned as a director of the Company effective on 16 November 2009.

Save as disclosed above, as at 31 December 2010, 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 2010, other than the Directors or chief executives of the Company, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholder	Number of issued ordinary shares held – long position	Percentage of the issued share capital of the Company
Sinochem Group *(Note 1)*	3,698,660,874	52.68%
Sinochem Corporation *(Note 1)*	3,698,660,874	52.68%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") *(Note 2)*	3,698,660,874	52.68%
Potash Corporation of Saskatchewan Inc. ("PotashCorp") *(Note 3)*	1,547,500,141	22.04%

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). 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.

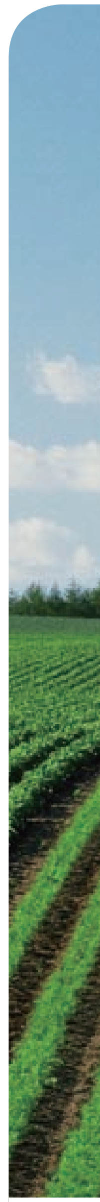
Save as disclosed above, other than the Directors or chief executives of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2010.

Directors' Interests in Contracts of Significance

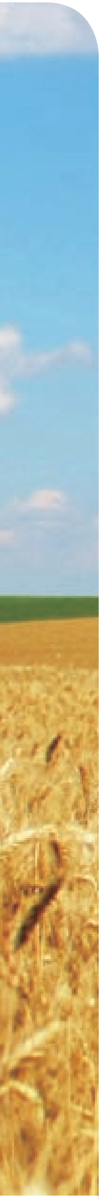
Save as disclosed herein, no other contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, were subsisted at the end of the year or at any time during the year.

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' Report



Directors' Interests in Competing Business

During the year ended 31 December 2010, 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 and was engaged in the production of fertilizer prior to its cessation of business in November 2005. Although US Agri-Chemicals Corporation still maintained its company registration with the relevant authorities in the United States, it had ceased its operation and accordingly, there is no competing business with the Group. Save for Mr. Harry Yang, none of the directors of US Agri-Chemicals Corporation held any positions or assumed any role in the Group during the year.

In addition, during the year, Dr. Stephen Francis Dowdle, Non-Executive Director of the Company, was appointed as a director of Canpotex Limited ("Canpotex"), a Canadian corporation equally owned by PotashCorp (a substantial shareholder of the Company) and two other potash producers. Canpotex is principally engaged in offshore marketing of potash products for its three owners and is currently one of the major suppliers of fertilizer products to the Group. Since the Group and Canpotex currently focus on different sales regions, the Company believes that there is no competition between the Group and Canpotex. Save for Dr. Stephen Francis Dowdle, none of the directors of Canpotex 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.

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 2010, the Group had the following transactions which constitute connected transactions or continuing connected transactions under the Listing Rules of the Stock Exchange and are hereby disclosed pursuant to Chapter 14A of the Listing Rules.

1. Newly Conducted Connected Transactions in 2010

For the year ended 31 December 2010, the Group newly conducted the following connected transactions, which are subject to reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

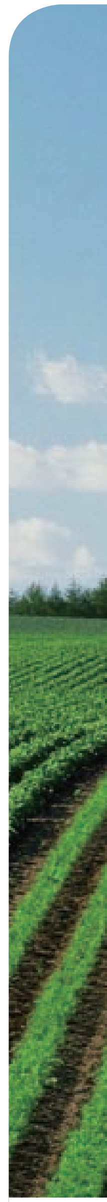
(1) Sales Contract between Sinochem Macao and Canpotex

On 8 February 2010, Sinochem Macao, an indirect wholly-owned subsidiary of the Company, entered into the Sales Contract with Canpotex under which Canpotex agreed to supply, and Sinochem Macao agreed to purchase potash fertilizers with an aggregate volume of approximately 350,000 metric tons. The aggregate consideration under the Sales Contract did not exceed US$150 million (approximately HK$1.17 billion). The aggregate consideration was determined after arm's length negotiations based on the prevailing market price of potash fertilizers. Payment was made by way of irrevocable letter of credit with reference to the date of issuance of the bill of lading.

Canpotex is a Canadian corporation equally owned by Potash and two other Canadian potash producers, while Sinochem Macao is an indirect wholly-owned subsidiary of the Company. As Potash is a substantial shareholder of the Company, and Canpotex is a connected person of the Company by virtue of being an associate of Potash. Accordingly, the transactions under the Sales Contract between Sinochem Macao and Canpotex constitute connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the Sales Contract are more than 2.5% and the total consideration for the Sales Contract is more than HK$10,000,000, the Sales Contract and the transaction contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 10 February 2010 and the circular dated 2 March 2010 published by the Company. The aforesaid 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) Addendums to the Sales Contract between Sinochem Macao and Canpotex

After signing the aforesaid Sales Contract on 8 February 2010, Sinochem Macao and Canpotex signed four Addendums to the Sales Contract respectively on 31 May 2010, 27 August 2010, 29 September 2010 and 25 October 2010. Under the Addendums, Sinochem Macao agreed to buy, and Canpotex agreed to supply, a further quantity of potash fertilizers.

The aggregate consideration under the Addendum dated on 31 May 2010 did not exceed US$26 million (approximately HK$203 million); the aggregate consideration under the Addendum dated on 27 August 2010 did not exceed US$80 million (approximately HK$622 million); the aggregate consideration under the Addendum dated on 29 September 2010 did not exceed US$75 million (approximately HK$582 million); the aggregate consideration under the Addendum dated on 25 October 2010 did not exceed US$52 million (approximately HK$404 million). The aggregate considerations of the aforesaid Addendums were determined after arm's length negotiations between the parties with reference to prevailing market price of potash fertilizers. Payment was made by way of irrevocable letter of credit with reference to the date of issuance of the bill of lading.

Canpotex is a Canadian corporation equally owned by Potash and two other Canadian potash producers, while Sinochem Macao is an indirect wholly-owned subsidiary of the Company. As Potash is a substantial shareholder of the Company, Canpotex is a connected person of the Company by virtue of being an associate of Potash. Accordingly, the transactions contemplated under the aforesaid Addendums to the Sales Contract between Sinochem Macao and Canpotex constitute connected transactions of the Company under the Listing Rules.

Directors' Report

As the applicable percentage ratios in respect of the aggregate value of the transactions under the fourth Addendum dated 25 October 2010 and aforesaid other addendums are more than 5%, and the aggregate value is more than HK$10,000,000, the transaction contemplated under the Addendum dated 25 October 2010 is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For detailed information on the aforesaid fourth Addendum dated 25 October 2010, please refer to the announcements dated 25 October 2010 and the circular dated 10 November 2010 published by the Company. The aforesaid transactions have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 9 December 2010.

For detailed information on other Addendums to the Sales Contract, please refer to the announcements dated 31 May 2010, 27 August 2010 and 29 September 2010 published by the Company.

2. Newly Conducted/Renewed Continuing Connected Transactions in 2010

For the year ended 31 December 2010, the Group newly conducted/renewed the following continuing connected transactions, which are subject to reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

(3) MOU for the purchase of Canadian Potash by Sinochem Macao and Canpotex International Pte. Limited

On 20 October 2010, Sinochem Macao, an indirectly wholly-owned subsidiary of the Company, entered into an MOU with Canpotex, an associate of Potash. As Potash is a substantial shareholder and a connected person of the Company, Canpotex is a connected person of the Company by virtue of being an associate of Potash. Accordingly, the continuing transactions contemplated under the MOU between Sinochem Macao and Canpotex constitute continuing connected transactions for the Company under the Listing Rules.

Under the MOU, Sinochem Macao and Canpotex agree to enter into transactions for a term of three years from 1 January 2011 to 31 December 2013 for the supply of Canadian Potash by Canpotex to Sinochem Macao. Pursuant to the MOU, Canpotex agreed to supply and Sinochem Macao agreed to purchase Canadian Potash from Canpotex on an exclusive basis and Canpotex will not sell such potash to any other buyers in the PRC other than in the circumstances specified in the MOU.

During the effective period under the MOU, prices for the Canadian potash to be supplied will be determined through negotiations between the parties with reference to prevailing market condition. Payments for the supplied potash may be settled by way of letter of credit or such other means as may be decided upon by the parties. The annual caps for the transactions contemplated under the MOU are US$600 million (approximately HK$4,660 million), US$730 million (approximately HK$5,670 million) and US$870 million (approximately HK$6,750 million) for the three years ending 31 December 2013, respectively. Such annual caps are determined based on the estimated volume and prices of purchase pursuant to the terms of the MOU, with reference to the transaction volume of potash purchased for the previous years and taking into account the possible increasing demand for potash imports into the PRC for the relevant years.

As the applicable percentage ratios in respect of the MOU are more than 5% and the maximum annual value of the transactions contemplated thereunder is more than HK$10 million, the MOU and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval, and annual review requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 20 October 2010 and the circular dated 10 November 2010 published by the Company. The aforesaid continuing connected transactions have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 9 December 2010.

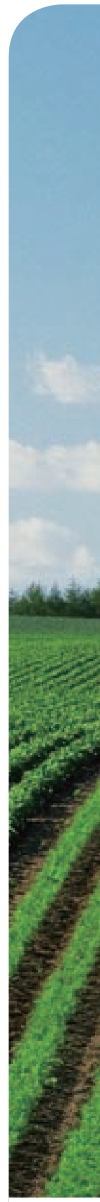
(4) Fertilizer Sales Co-operation Framework Agreement between Sinochem Fertilizer, Sinochem Macao and Sinochem Group

As disclosed in the 2007 Announcement, the Former Import Service Framework Agreement entered into among Sinochem Fertilizer, Sinochem Macao and Sinochem Group conducts, inter alia, continuing connected transactions under the Former Import Service Framework Agreement, which expired on 31 December 2010. On 22 November 2010, Sinochem Fertilizer, Sinochem Macao and Sinochem Group entered into the Fertilizer Sales Co-operation Framework Agreement, pursuant to which the parties agreed to enter into transactions for the import of fertilizer products into the PRC.

Sinochem Fertilizer and Sinochem Macao are respectively the indirectly wholly-owned subsidiaries of the Company. Sinochem group holds a 98% equity interest in Sinochem Corporation, which in turn wholly-owns Sinochem HK, which in turn owns approximately 52.7% of the Company. Sinochem Group is therefore a connected person of the Company under the Listing Rules and the the transactions under the Fertilizer Sales Co-operation Framework Agreement is therefore a continuing connected transaction under the Listing Rules.

Under the PRC law, the Group is not allowed to import fertilizer product into the PRC (except for small amount trade in border areas as approved under the PRC law) and the right to import fertilizer products is only granted to Sinochem Group and several other importers. Accordingly, Sinochem Group has agreed to provide import service to the Group pursuant to the Fertilizer Sales Co-operation Framework Agreement.

Pursuant to such 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 all of such to Sinochem Fertilizer. Sinochem Group will also import a small amount of fertilizer products direct from overseas 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 fertilizer products it imports to Sinochem Fertilizer on an exclusive basis. On the other hand, Sinochem Fertilizer is entitled to purchase fertilizer products from any authorized importers.



Directors' Report

Sinochem Fertilizer, Sinochem Macao and Sinochem Group will, in accordance with the provisions and principles stipulated in the Fertilizer Sales Co-operation Framework Agreement, enter into further specific agreements for the fertilizer products to be imported through Sinochem Group.

Under the Fertilizer Sales Co-operation Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties are as follows:

(i) the price paid by Sinochem Group to Sinochem Macao for fertilizer products old by Sinochem Macao to Sinochem Group is set in accordance with the prevailing international market price;

(ii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced from overseas by Sinochem Macao is set in accordance with the purchasing price paid by Sinochem Group plus reasonable costs incurred by Sinochem Group in relation to the import of fertilizer products; and

(iii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced by Sinochem Group direct from overseas suppliers is set in accordance with the prevailing domestic wholesale market price.

Payments for the fertilizer products may be settled by way of letter of credit or such other means as may be agreed upon by the Parties.

The annual caps in respect of the continuing connected transaction between Sinochem Macao and Sinochem Group under the Fertilizer Sales Co-operation Framework Agreement for each of the three years ending 31 December 2013 are US$1,370,000,000 (approximately HK$10,626,405,000), US$1,625,200,000 (approximately HK$12,605,864,000) and US$1,939,792,000 (approximately HK$15,045,997,000), respectively.

Such annual caps 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 tonne of fertilizer products for each of the relevant years (which is set in accordance with the prevailing international market price).

The annual caps in respect of the continuing connected transaction between Sinochem Fertilizer and Sinochem Group under the Fertilizer Sales Co-operation Framework Agreement for each of the three years ending 31 December 2013 are RMB11,657,104,000 (approximately HK$13,598,012,000), RMB14,162,276,000 (approximately HK$16,520,295,000) and RMB17,164,235,000 (approximately HK$20,022,080,000), respectively.

Such annual caps are calculated with reference to:

(i) the projected quantities of sales of fertilizer products sourced from overseas by Sinochem Macao, and the projected average price per tonne of fertilizer products for each of the relevant years (which is set on a cost basis) and the estimated costs incurred by Sinochem Group for the importation of such fertilizer products; and

(ii) the projected quantities of sales of fertilizer products sourced by Sinochem Group direct from overseas suppliers to Sinochem Fertilizer and the projected average price per tonne of fertilizer products for each of the relevant years (which is set in accordance with the prevailing domestic wholesale market price).

As the applicable percentage ratios in respect of the proposed annual caps are more than 5% and the maximum annual values of the transactions contemplated thereunder are more than HK$10 million, the Fertilizer Sales Co-operation Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 22 November 2010 and the circular dated 23 November 2010 published by the Company. The aforesaid continuing connected transactions have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 9 December 2010.

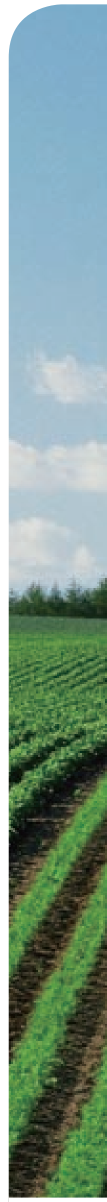
3. Other Continuing Connected Transactions

Other than the above-mentioned new and renewed continuing connected transactions, the continuing connected transactions of the Group in 2010 also include the following:

(5) 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.



Directors' Report

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 was therefore 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.

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

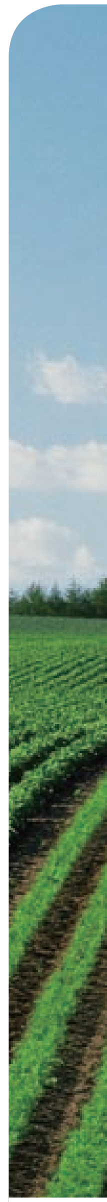
On 1 April 2009, Sinochem Fertilizer and Dohigh Trading, wholly-owned subsidiaries of the Company, entered into the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement with Sinochem Group, the substantial shareholder of the Company, so as to make full use of domestic preferential policies 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 RMB160,310,000, RMB200,390,000 and RMB200,390,000, respectively.

Given that each of the relevant applicable percentage ratios set out in the Listing Rules for the transactions under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement is 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.



Directors' Report

(7) 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.

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.

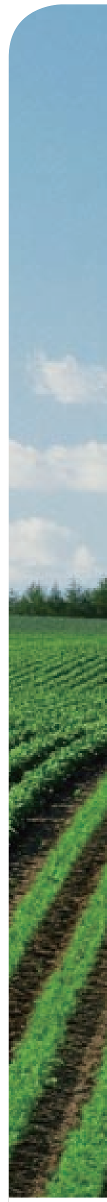
(8) SPM and MP MOUs between Sinochem Macao and PCS Sales

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 1 January 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 31 December 2012, respectively.

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 announcement dated 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.



Directors' Report

(9) 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.

(10) 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 expired 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 was 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 was charged at the cost basis. The price of electricity was 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.

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 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.

(11) 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.

Directors' Report

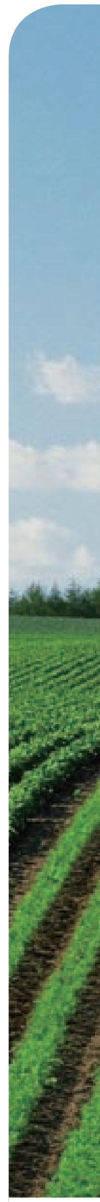
On 24 September 2008, Sinochem Fertilizer entered into the New SF Service Agreement and Tianjin Beifang entered into the New Tianjin Beifang Service Agreement with Tianjin Beihai respectively. Under the New SF Service Agreement, Tianjin Beihai will provide unloading, packaging, storage, port and other 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 l4A.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.



(12) 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 was first be sold to Sinochem Group. Sinochem Group, as an approved importer of fertilizer products in the PRC, imports 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 would sell all the imported fertilizer products to Sinochem Fertilizer exclusively.

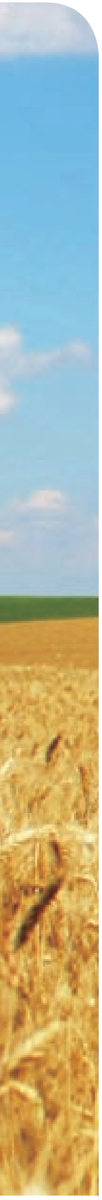
On the other hand, Sinochem Fertilizer is free to purchase fertilizer products from any authorized importers. Sinochem Fertilizer, Sinochem Group and Sinochem Macao would, in accordance with the provisions and principles stipulated in the Import Service Framework Agreement, enter into further specific 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 paid by Sinochem Group to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Group is set in accordance with the prevailing international market price;

(ii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced from overseas by Sinochem Macao is 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 paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced by Sinochem Group directly from overseas is set in accordance with the domestic wholesale market price.

Directors' Report



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 is US$2,454,840,000, US$2,705,820,000 and US$3,029,700,000, respectively. Such annual caps are calculated based on the quantities of purchase by Sinochem Group for Sinochem Fertilizer through the arrangement with Sinochem Macao and the 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 RMB18,663,080,000, RMB20,570,980,000 and RMB23,032,950,000, respectively. Such estimates are calculated with reference to:

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

(ii) the quantities of sales of fertilizer products sourced by Sinochem Group directly from overseas suppliers to Sinochem Fertilizer and the 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.

The aforesaid Import Service Framework Agreement expired on 31 December 2010. On 22 November 2010, Sinochem Fertilizer, Sinochem Macao and Sinochem Group entered into the Fertilizer Sales Co-operation Framework Agreement, pursuant to which the parties agreed to enter into transaction for the import of fertilizer products into the PRC. For detailed information on the aforesaid transactions, please refer to the announcement dated 22 November 2010 published by the Company.

(13) 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 expired 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 UK Service Agreement, Sinochem UK provides 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 is 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.

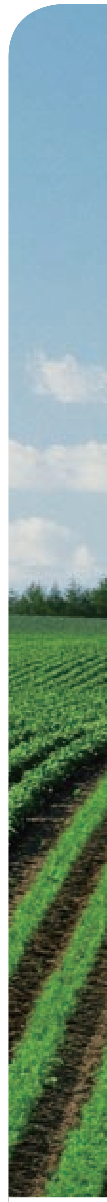
Such services are provided at the request of the Group as the Group does not have any staff working in Europe. Sinochem UK issues the invoice to Sinochem Macao for all services it provides from time to time and Sinochem Macao settles the invoice within 10 days of the date of such invoice. The annual caps of fees payable to Sinochem UK for each of the three years ending 31 December 2010 is approximately US$2,000,000. Such annual caps are calculated based on the quantities of purchases by Sinochem Macao from local suppliers in Europe and 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.

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.

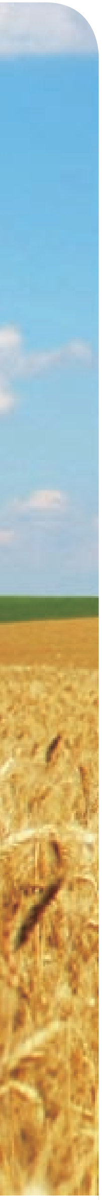
(14) Provision of Logistics Services to Tianjin Beifang by Tianjin Port Group

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



Tianjin Beifang is 60% owned 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.

Directors' Report



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 RMB123,500,000, RMB128,600,000 and RMB144,700,000, respectively. Such annual caps are calculated based on quantities of products that 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.

(15) 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 (hereinafter referred to as "SRICI"), 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 expired 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 are made with 30 days of delivery of such products by SRICI. The maximum turnovers of the transactions under the Agrichemical Sourcing Agreement for the three years ending 31 December 2010 are 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 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 transactions under the Agrichemical Sourcing Framework Agreement are similar to those of under the Agrichemical Sourcing Agreement between Sinochem Fertilizer and SRICI, Sinochem Fertilizer and SRICI agreed that the Agrichemical Sourcing Agreement was amended and treated as one of the specific agreements under the Agrichemical Sourcing Framework Agreement.

(16) 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 expired 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 agreed to supply, and Sinochem Fertilizer agreed to purchase, chemical and fertilizer products and materials. The prices of the fertilizers are based on fair market price in the PRC at the time the purchase order is placed, and is exclusive of the relevant transport fees. Sinochem Fertilizer provides 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 pays in advance to Qinghai Salt Lake a deposit equivalent to 50% of the purchase price for such quantity. The remaining purchase price is calculated based on the actual quantity of potash fertilizer purchased by Sinochem Fertilizer in the relevant month, and Sinochem Fertilizer pays 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 are 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 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.

Directors' Report

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.

4. The annual caps approved for and the actual transaction amount of continuing connected transactions of the Group for the year ended 31 December 2010 are set out below:

Name of Transactions	Currency	Annual Caps for Year 2010 *($'000)*	Actual Transacted Amount For Year 2010 *($'000)*
Continuing Connected Transactions subject to Independent Shareholders' Approval Requirements			
1 Import Service Framework Agreement			
(i) Sinochem Group imports from Sinochem Macao	USD	3,029,700	702,244
(ii) Sinochem Fertilizer purchases from Sinochem Group	RMB	23,032,950	4,827,036
2 Sinochem Fertilizer purchases fertilizer products from Qinghai Salt Lake Potash	RMB	4,200,000	126,488
Continuing Connected Transactions exempted from Independent Shareholders' Approval Requirement but Subject to Reporting, Announcement and Annual Review Requirements			
3. Sinochem Fertilizer purchases agrichemical products from Sinochem Group and its associates	RMB	100,000	7,387
4. Sulphur and Other Fertilizer Raw Materials Import Framework Agreement:			
(i) Dohigh Trading supplies sulphur and other fertilizer raw materials to Sinochem Group	USD	25,000	5,381
(ii) Sinochem Fertilizer purchases sulphur and other fertilizer raw materials from Sinochem Group	RMB	200,390	32,613
5. Outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance	RMB	580,000	–

Name of Transactions	Currency	Annual Caps for Year 2010 *($'000)*	Actual Transacted Amount For Year 2010 *($'000)*
6. PCS Sales supplies sulfate of potash magnesia and muriate potash to Sinochem Macao	USD	222,000	49,121
7. Sinochem Fertilizer purchases chemical and fertilizer products and materials from Guiyang Sinochem Kailin	RMB	600,000	-
8. Yongan Zhisheng supplies raw materials, steam and electricity to Sinochem Zhisheng	RMB	144,752	49,054
9. (i) Tianjin Beihai provides logistics services to Sinochem Fertilizer	RMB	60,000	603
(ii) Tianjin Beihai provides packaging services to Tianjin Beifang	RMB	60,000	35
10. Sinochem UK provides agency services to Sinochem Macao	USD	2,000	1,708
11. Tianjin Port Group provides logistic services to Tianjin Beifang	RMB	144,700	140,385
12. Sinochem Fertilizer purchases pesticide from SRICI	RMB	40,000	8,224

5. 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 2010 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 favourable than the terms the Company could have obtained from an independent third party; and
- in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Directors' Report

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

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

- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors;

- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Company;

- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

- with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual value disclosed in the previous announcements made by the Company in respect of each of the disclosed continuing connected transactions.

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 section headed "Connected Transactions" in this Directors' Report.

Major Discloseable Events

For the year ended 31 December 2010, the Company had no other major discloseable events except events being disclosed in this annual report.

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 2010.

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 49.

Retirement Benefits Scheme

Details of the retirement benefits scheme of the Group are set out in note 42 to the consolidated financial statements.

Housing Funds

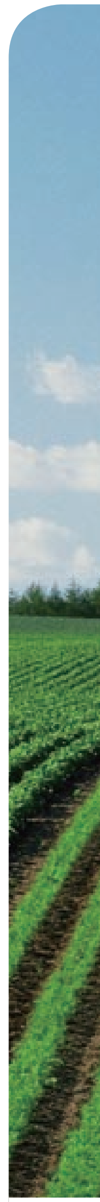
The Group strictly complied with the regulations of the relevant region in respect of the contribution to the housing funds for its employees.

Post Balance Sheet Event

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

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2010 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, 24 March 2011

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 88 to 175, which comprise the consolidated statement of financial position of the Group as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of the consolidated financial statements that give a true and fair view 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.

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 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Revenue	5	**29,271,077**	27,010,709
Cost of sales		**(27,780,079)**	(27,573,458)
Gross profit (loss)		**1,490,998**	(562,749)
Other income and gains	6	**372,069**	771,523
Distribution and selling expenses		**(763,325)**	(832,566)
Administrative expenses		**(500,305)**	(491,679)
Other expenses and losses		**(142,796)**	(824,696)
Share of results of associates		**184,565**	250,322
Share of results of jointly controlled entities		**58,118**	(57,545)
Finance costs	7	**(314,789)**	(451,418)
Changes in fair value of derivative financial instruments		**98,327**	49,712
Profit (loss) before tax		**482,862**	(2,149,096)
Income tax (expense) credit	8	**(481)**	683,127
Profit (loss) for the year	10	**482,381**	(1,465,969)
Other comprehensive loss			
Exchange differences arising on translation		**(139,760)**	(13,618)
Changes in fair value of available-for-sale investments		**(5,222)**	389,877
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments		**–**	(491,388)
Reclassification adjustment for the cumulative loss included in profit or loss upon impairment of available-for-sale investments		**16,079**	–
Income tax relating to components of other comprehensive income		**(420)**	30,170
Other comprehensive loss for the year (net of tax)	9	**(129,323)**	(84,959)
Total comprehensive income (loss) for the year		**353,058**	(1,550,928)
Profit (loss) for the year attributable to:			
– Owners of the Company		**535,711**	(1,443,813)
– Non-controlling interests		**(53,330)**	(22,156)
		482,381	(1,465,969)
Total comprehensive income (loss) attributable to:			
– Owners of the Company		**406,388**	(1,528,772)
– Non-controlling interests		**(53,330)**	(22,156)
		353,058	(1,550,928)
Earnings (loss) per share			
Basic (RMB)	14	**0.0763**	(0.2059)
Diluted (RMB)	14	**0.0667**	(0.2059)

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Non-current Assets			
Property, plant and equipment	15	**4,848,151**	4,994,863
Prepaid lease payments	16	**515,916**	478,309
Investment properties	17	**14,600**	14,600
Goodwill	18	**568,705**	579,258
Other long-term assets	20	**40,443**	44,173
Interests in associates	21	**7,192,250**	7,063,857
Interests in jointly controlled entities	22	**589,486**	729,008
Available-for-sale investments	23	**266,624**	176,934
Advance payments for acquisition of property, plant and equipment		**25,420**	23,117
Deferred tax assets	32	**868,894**	895,316
		14,930,489	14,999,435
Current Assets			
Inventories	24	**5,138,088**	5,828,901
Trade and bills receivables	25	**3,059,884**	2,775,778
Advance payments to suppliers		**1,853,543**	1,116,548
Other receivables		**134,763**	326,722
Prepaid lease payments	16	**31,741**	30,276
Other deposits	26	**50,100**	–
Pledged bank deposits	27	**22,638**	22,907
Bank balances and cash	27	**223,317**	190,584
		10,514,074	10,291,716
Current Liabilities			
Trade and bills payables	28	**2,575,807**	2,194,487
Receipts in advance		**2,160,939**	1,383,572
Other payables		**293,784**	554,231
Derivative financial instruments	29	**48,058**	–
Tax liabilities		**4,414**	139,803
Convertible loan notes	29	**646,486**	–
Borrowings – due within one year	30	**2,993,369**	3,767,871
		8,722,857	8,039,964
Net Current Asset		**1,791,217**	2,251,752
Total Assets less Current Liabilities		**16,721,706**	17,251,187

Consolidated Statement of Financial Position

At 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
Capital and Reserves			
Issued equity	31	**8,260,977**	8,248,928
Reserves		**4,343,287**	3,903,010
Equity attributable to owners of the Company		**12,604,264**	12,151,938
Non-controlling interests		**329,770**	383,100
Total Equity		**12,934,034**	12,535,038
Non-current Liabilities			
Deferred tax liabilities	32	**54,048**	68,550
Borrowings – due after one year	30	**3,572,989**	3,800,929
Convertible loan notes	29	**–**	626,240
Derivative financial instruments	29	**–**	149,175
Deferred income		**160,635**	71,255
		3,787,672	4,716,149
Total Equity and Non-current Liabilities		**16,721,706**	17,251,187

The consolidated financial statements on pages 88 to 175 were approved and authorized for issue by the Board of Directors on 24 March 2011 and are signed on its behalf by:

Liu Deshu	**Feng Zhibin**
Director	*Director*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Issued equity	Merger reserve	Capital reserve	Statutory reserves	Investment revaluation reserve	Share option reserve	Translation reserve	Retained profits	Total	Non-controlling 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)*	*(Note d)*							
At 1 January 2009	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)
Other comprehensive loss for the year	–	–	–	–	(71,341)	–	(13,618)	–	(84,959)	–	(84,959)
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 non-controlling interests	–	–	–	–	–	–	–	–	–	(1,903)	(1,903)
Exercise 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

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Issued equity RMB'000	Merger reserve RMB'000 (Note a)	Capital reserve RMB'000 (Note b)	Other reserve RMB'000 (Note c)	Statutory reserves RMB'000 (Note d)	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
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
Profit for the year	-	-	-	-	-	-	-	-	535,711	535,711	(53,330)	482,381
Other comprehensive loss for the year	-	-	-	-	-	10,437	-	(139,760)	-	(129,323)	-	(129,323)
Total comprehensive profit for the year	-	-	-	-	-	10,437	-	(139,760)	535,711	406,388	(53,330)	353,058
Energy saving and emission reduction fund	-	-	-	36,290	-	-	-	-	-	36,290	-	36,290
Exercise of share options	12,049	-	-	-	-	-	(2,724)	-	-	9,325	-	9,325
Recognition of equity-settled share-based payment	-	-	-	-	-	-	323	-	-	323	-	323
Forfeiture of share options	-	-	-	-	-	-	(1,192)	-	1,192	-	-	-
At 31 December 2010	8,260,977	255,531	485,551	36,290	384,071	(3,648)	8,032	(531,830)	3,709,290	12,604,264	329,770	12,934,034

Notes:

(a) The 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 companies as consideration for the group restructuring transactions in previous years.

(b) The capital reserve of the Group mainly represents contributions from/distributions to the ultimate holding company.

(c) In 2010, a PRC subsidiary of the Group has received funding of RMB36,290,000 from its ultimate holding company, Sinochem Group, which can only be used to fund energy saving and emission reduction projects.

(d) Statutory reserves comprise reserve fund and enterprise expansion fund. In accordance with relevant rules and regulations, the Company's subsidiaries in the People's Republic of China (the "PRC") are required to transfer a portion of their profit after income tax to the reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in PRC. Reserve fund and enterprise expansion fund may be distributed to investors in the form of bonus issue.

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit (loss) before tax	**482,862**	(2,149,096)
Adjustments for:		
Share of results of jointly controlled entities	**(58,118)**	57,545
Release of prepaid lease payments	**30,791**	30,276
Gain on disposal of a jointly controlled entity	**(23,665)**	–
Gain on disposal of available-for-sale investments	**–**	(491,388)
Depreciation of property, plant and equipment	**242,740**	244,264
Impairment on property, plant and equipment	**40,681**	–
(Gain) loss on disposal of property, plant and equipment	**(3,978)**	399
Share of results of associates	**(184,565)**	(250,322)
Interest income from bank deposits	**(4,587)**	(4,175)
Finance costs	**314,789**	451,418
Dividend income from available-for-sale investments	**(2,271)**	(9,976)
Gain on disposal/liquidation of subsidiaries	**(51,262)**	(4)
Gain on debt restructuring	**–**	(81,139)
Write-off of non-demand payables	**(74,236)**	–
Allowance provided on trade receivables	**11,913**	3,384
Write-down of other receivables	**11,277**	8,892
Impairment losses on available-for-sale investments	**16,079**	–
Changes in fair value of derivative financial instruments	**(98,327)**	(49,712)
Write-down of inventories	**70,182**	760,102
Amortization of other long-term assets	**14,497**	15,150
Recognition of share-based payment expenses	**323**	3,700
Release of deferred income	**(8,720)**	(5,684)
Operating cash flows before movements in working capital	**726,405**	(1,466,366)
Decrease in inventories	**608,381**	4,980,640
Increase in trade and bills receivables	**(494,019)**	(550,495)
(Increase) decrease in advance payments to suppliers and other receivables	**(612,076)**	242,078
Increase in deferred income	**98,100**	43,672
Increase (decrease) in trade and bills payables	**468,112**	(1,699,476)
Increase in receipts in advance and other payables	**617,293**	160,869
Cash generated from operations	**1,412,196**	1,710,922
Income tax paid	**(30,381)**	(210,257)
Income tax refunded	**105,950**	–
NET CASH FROM OPERATING ACTIVITIES	**1,487,765**	1,500,665

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
INVESTING ACTIVITIES			
Additions of prepaid lease payments		**(69,863)**	–
Acquisitions of associates		**–**	(16,729)
Addition to investment in an associate		**(1,600)**	–
Purchases of property, plant and equipment		**(325,862)**	(480,352)
Placement of other deposits		**(50,100)**	–
Acquisitions of other long-term assets		**(10,767)**	(12,522)
Dividends received from available-for-sale investments		**2,271**	9,976
Dividends received from jointly controlled entities		**23,201**	146
Dividends received from associates		**57,389**	31,034
Interest received		**4,587**	4,175
Disposal/liquidation of subsidiaries	43	**(1)**	(413)
Proceeds from disposals of available-for-sale investments		**–**	707,309
Proceeds from disposals of a jointly controlled entity		**110,000**	–
Proceeds from disposals of property, plant and equipment		**43,535**	1,522
Decrease (increase) in pledged bank deposits		**177**	(14,971)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(217,033)**	229,175
FINANCING ACTIVITIES			
Interest paid		**(322,984)**	(462,833)
Proceeds from exercise of options		**9,325**	12,333
Proceeds from borrowings, net of issuance costs		**7,532,105**	26,912,200
Repayments of borrowings		**(8,492,272)**	(27,863,319)
Dividends paid		**–**	(286,912)
Dividends paid to non-controlling interests		**–**	(1,903)
Energy-saving and emission reduction fund received		**36,290**	–
NET CASH USED IN FINANCING ACTIVITIES		**(1,237,536)**	(1,690,434)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**33,196**	39,406
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**190,584**	160,302
Effect of foreign exchange rate changes		**(463)**	(9,124)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		**223,317**	190,584

1. GENERAL

Sinofert Holdings Limited (the "Company", together with its subsidiaries hereinafter collectively referred to as the "Group") is a limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its parent is Sinochem Hong Kong (Group) Company Limited (established in Hong Kong) and its ultimate holding company is Sinochem Group (established in 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 40.

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

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRSs (Amendments)	Amendments to HKAS 31 included in Improvements to HKFRSs issued in 2010
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC) – Int 17	Distributions of Non-cash Assets to Owners
HK – Int 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and disclosures set out in these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

New and revised Standards and Interpretations applied in the current year (Continued)

HKAS 31 (as revised in 2008) Interests in Joint Ventures

The principle adopted under HKAS 27 (as revised in 2008) that a loss of control is recognised as a disposal and re-acquisition of any retained interest at fair value is extended by consequential amendments to HKAS 31. Therefore, when joint control over a joint venture is lost, the investor measures any investment retained in the former joint venture at fair value, with any consequential gain or loss recognised in profit or loss. In addition, as part of Improvements to HKFRSs issued in 2010, HKAS 31 (as revised in 2008) has been amended to clarify that the consequential amendments to HKAS 31 in relation to transactions where the investor loses joint control over a joint venture should be applied prospectively. The Group has applied the amendments to HKAS 31 (as revised in 2008) as part of Improvements to HKFRSs issued in 2010 in advance of their effective dates (annual periods beginning on or after 1 July 2010).

This change in policy has affected the accounting for the partial disposal of the Group's interest in Tianji Sinochem Gaoping Chemical Engineering Company Limited ("Tianji Sinochem Gaoping") in the current year (Details of the disposal are set out in Note 23). The difference of RMB8,609,000 between the carrying amount of RMB76,391,000 of the interest retained in Tianji Sinochem Gaoping by the Group and its fair value of RMB85,000,000 at the date of the partial disposal has been recognised as other income and gains in profit or loss in the current year. Had the Group's previous accounting policy been followed, the carrying amount of the interest retained would have been regarded as cost of the investment for the purpose of subsequent accounting as an available-for-sale investment under HKAS 39 *Financial Instruments: Recognition and Measurement*; and fair value adjustment of RMB8,609,000 would have been recognised in other comprehensive income. The profit for the current year has therefore been increased by RMB8,609,000 as a result of the change in accounting policy. This increase will be offset by a decrease in profits of an equivalent amount when the investment is disposed of in future accounting periods.

The above change in accounting policies has resulted the basic earnings per share in 2010 increased from RMB0.0751 to RMB0.0763 and diluted earnings per share from RMB0.0655 to RMB0.0667. The change has no impact on basic and diluted loss per share in 2009.

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

New and revised Standards and Interpretations issued but not yet effective

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

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 except for the amendments to HKAS 31[1]
HKFRS 7 (Amendments)	Disclosures-Transfers of Financial Assets[2]
HKFRS 9	Financial Instruments[3]
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
HKAS 24 (Revised)	Related Party Disclosures[5]
HKAS 32 (Amendments)	Classification of Rights Issues[6]
HK (IFRIC) – Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement[5]
HK (IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments[7]

1 Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2011
3 Effective for annual periods beginning on or after 1 January 2013
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 February 2010
7 Effective for annual periods beginning on or after 1 July 2010

HKFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Currently, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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

New and revised Standards and Interpretations issued but not yet effective (Continued)

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that HKFRS 9 will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The directors of the Company are currently assessing the impacts of application of other new and revised standards, amendments and interpretations will have on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The principal accounting policies are set out below.

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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Prior to 1 January 2010, losses applicable to the non-controlling interests in excess of the non-controlling interests in the subsidiary's equity were allocated against the interests of the Group except to the extent that the non-controlling interests had a binding obligation and were able to make an additional investment to cover the losses.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries on or after 1 January 2010

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill) and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Changes in the Group's ownership interests in existing subsidiaries prior to 1 January 2010

Increases in interests in existing subsidiaries were treated in the same manner as the acquisition of subsidiaries, with goodwill or a bargain purchase gain being recognised where appropriate. For decreases in interests in subsidiaries, regardless of whether the disposals would result in the Group losing control over the subsidiaries, the difference between the consideration received and the adjustment to the non-controlling interests was recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another Standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place on or after 1 January 2010 (Continued)

Where the consideration the Group transfers in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the measurement period about facts and circumstances that existed as of the acquisition date. Measurement period does not exceed one year from the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration qualifying as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognised in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations (Continued)

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognised at their fair value at the acquisition date.

Goodwill arising on acquisition was recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognised amounts of the identifiable assets, liabilities and contingent liabilities recognised. If, after assessment, the Group's interest in the recognised amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognised immediately in profit or loss.

The non-controlling interest in the acquiree was initially measured at the non-controlling interest's proportionate share of the recognised amounts of the assets, liabilities and contingent liabilities of the acquiree.

Contingent consideration was recognised, if and only if, the contingent consideration was probable and could be measured reliably. Subsequent adjustments to contingent consideration were recognised against the cost of the acquisition.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognised goodwill.

Combinations under common control of ultimate holding company

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 control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised 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.

3. SIGNIFICANT ACCOUNTING POLICIES (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 end of the previous reporting period or when they first came under common control, whichever is shorter.

Goodwill

Goodwill arising on an acquisition of a subsidiary 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.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss in the consolidated statement of comprehensive income. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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 initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. 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. Additional losses are 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 and liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits or losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group, 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.

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 initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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 recognizing its share of further losses. Additional losses are 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 cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of a jointly controlled entity recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities (Continued)

When a group entity transacts with its jointly controlled entity, profits or losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group, 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 collectability 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.

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments including available-for-sales investments is recognized when the shareholders' rights to receive payments have been established, provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 as described below, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

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

The Group as a lessor

Rental income from operating leases is recognized in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as a lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

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 the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at 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 retranslation 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. Exchange differences arising, if any, are recognized as a separate component of equity (the translation reserve).

From 1 January 2010 onwards, on the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognized in the translation reserve.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 their intended use or sales. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

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 consolidated 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 and gains 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

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 moving 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale investments. 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.

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, other deposits, 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 investments

Available-for-sale investments 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 investments 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 the reporting period subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial Assets (Continued)

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at the end of the 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.

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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial Assets (Continued)

Impairment of financial assets (Continued)

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.

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 instruments

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (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, 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 2010

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 in its entirety, 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 and accumulated in equity is recognized in profit or loss.

Financial liabilities are derecognized 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of tangible assets

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.

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.

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 2010, the carrying amount of inventories is RMB5,138,088,000 (2009: RMB5,828,901,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

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 2010, the carrying amount of goodwill is RMB568,705,000 (2009: RMB579,258,000). Details of the recoverable amount calculation are disclosed in Note 19.

Realisability of deferred tax assets

As at 31 December 2010, a deferred tax asset of RMB819,480,000 (2009: RMB671,621,000) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. The Group has not recognized a deferred tax asset on the tax losses of RMB793,694,000 (2009: RMB649,587,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

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

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of business model.

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

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

5. SEGMENT INFORMATION (Continued)

Information regarding to the above segment is reported below.

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

2010

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Total *RMB'000*
Revenue			
External revenue	25,324,421	3,946,656	29,271,077
Inter-segment revenue	358,022	2,970,394	3,328,416
Segment revenue	25,682,443	6,917,050	32,599,493
Elimination	(358,022)	(2,970,394)	(3,328,416)
	25,324,421	3,946,656	29,271,077
Segment profit	451,862	73,198	525,060
Unallocated expenses			(48,642)
Unallocated income			222,906
Finance costs			(314,789)
Changes in fair value of derivative financial instruments			98,327
Profit before tax			482,862
Assets			
Segment assets	8,310,672	15,698,601	24,009,273
Available-for-sale investments			266,624
Deferred tax assets			868,894
Other unallocated assets			299,772
Consolidated total assets			25,444,563
Liabilities			
Segment liabilities	3,358,989	1,820,592	5,179,581
Deferred tax liabilities			54,048
Other unallocated liabilities			7,276,900
Consolidated total liabilities			12,510,529

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION (Continued)

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

2009

	Sourcing and distribution RMB'000	Production RMB'000	Total RMB'000
Revenue			
External revenue	24,118,030	2,892,679	27,010,709
Inter-segment revenue	254,580	3,144,899	3,399,479
Segment revenue	24,372,610	6,037,578	30,410,188
Elimination	(254,580)	(3,144,899)	(3,399,479)
	24,118,030	2,892,679	27,010,709
Segment (loss) profit	(2,542,804)	167,234	(2,375,570)
Unallocated expenses			(78,987)
Unallocated income			215,779
Finance costs			(451,418)
Changes in fair value of derivative financial instruments			49,712
Gain on disposal of available-for-sale investments			491,388
Loss before tax			(2,149,096)
Assets			
Segment assets	8,740,750	15,282,517	24,023,267
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

5. SEGMENT INFORMATION (Continued)

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

The accounting policies of the operating 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 taking into account of unallocated expenses/income, changes in fair value of derivative financial instruments and finance costs. This is the measure reported to the Group's 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 operating segments other than corporate assets, investment related assets and deferred tax assets; and

- All liabilities are allocated to operating segments other than corporate liabilities, current and deferred tax liabilities.

In the current year, share of results of associates and share of results of jointly controlled entities are included in the measure of segment results and interests in associates and interest in jointly controlled entities are included in the measure of segment assets when report to the Group's chief operating decision maker. In 2009, they were not included in the measure of segment results or segment assets. As a result of the change in the measurement methods, the segment profit of sourcing and distribution segment in 2010 has decreased by RMB829,000 (2009: segment loss increased by RMB1,411,000), and the segment profit of production segment in 2010 has increased by RMB243,512,000 (2009: RMB194,188,000); meanwhile, the segment asset of sourcing and distribution segment in 2010 has increased by RMB19,636,000 (2009: RMB19,448,000), and the segment asset of production segment in 2010 has increased by RMB7,762,100,000 (2009: RMB7,773,417,000). The relevant segment information for the year 2009 has been represented based on the measurement method of 2010.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION (Continued)

(b) Other segment information

2010

	Sourcing and distribution RMB'000	Production RMB'000	Corporate unallocated RMB'000	Total RMB'000
Amounts included in the measures of segment profit and segment assets:				
Additions to non-current assets	11,436	458,307	8	469,751
Interests in associates	17,327	7,174,923	–	7,192,250
Interests in jointly controlled entities	2,309	587,177	–	589,486
Allowance provided on trade receivables	–	11,913	–	11,913
Write-down of other receivables	2,620	8,657	–	11,277
Impairment on property, plant and equipment	–	40,681	–	40,681
Depreciation and amortization	8,298	247,924	1,015	257,237
Release of prepaid lease payments	–	30,791	–	30,791
Write-down of inventories	64,832	5,350	–	70,182
Loss (gain) on disposal of property, plant and equipment	71	(4,049)	–	(3,978)
Share of results of associates	(962)	185,527	–	184,565
Share of results of jointly controlled entities	133	57,985	–	58,118
Gain on disposal of a subsidiary	–	51,262	–	51,262
Gain on disposal of a jointly controlled entity	–	23,665	–	23,665
Write-off of non-demand payables	25,857	48,090	289	74,236

5. SEGMENT INFORMATION (Continued)

(b) Other segment information (Continued)

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) and segment assets:				
Additions to non-current assets	13,848	530,457	26	544,331
Interests in associates	17,272	7,046,585	–	7,063,857
Interests in jointly controlled entities	2,176	726,832	–	729,008
Allowance (reverse) provided on trade receivables	(225)	3,609	–	3,384
Write-down of other receivables	–	8,892	–	8,892
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
Share of results of associates	(1,523)	251,845	–	250,322
Share of results of jointly controlled entities	112	(57,657)	–	(57,545)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

5. SEGMENT INFORMATION (Continued)

(c) Revenue from major products

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

	2010 **RMB'000**	2009 RMB'000
Potash fertilizers	**7,321,999**	6,750,208
Nitrogen fertilizers	**9,875,618**	8,254,933
Compound fertilizers	**4,547,083**	4,716,023
Phosphate fertilizers	**6,380,334**	6,511,440
Others	**1,146,043**	778,105
Total	**29,271,077**	27,010,709

(d) Geographical information

The Group's operations are mainly located in the PRC mainland and Macao Special Administrative Region ("Macao SAR").

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

	Revenue from external customers		**Non-current assets**	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
The PRC	**27,704,478**	26,450,172	**13,794,724**	13,925,838
Others	**1,566,599**	560,537	**247**	1,347
	29,271,077	27,010,709	**13,794,971**	13,927,185

(e) Information about major customers

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

6. OTHER INCOME AND GAINS

	2010	2009
	RMB'000	*RMB'000*
Rental income	**2,625**	3,165
Dividend income from available-for-sale investments *(note a)*	**2,271**	9,976
Interest income from bank deposits	**4,587**	4,175
Government grants *(note b)*	**114,422**	104,142
Exchange gain	**35,753**	–
Gain on disposal of available-for-sale investments	**–**	491,388
Gain on disposal of property, plant and equipment	**3,978**	–
Release of deferred income	**8,720**	5,684
Compensation received	**8,022**	6,493
Gain on debt restructuring *(note c)*	**–**	81,139
Write-off of non-demand payables	**74,236**	–
Gain on disposal of a subsidiary *(Note 43)*	**51,262**	–
Gain on disposal of a jointly controlled entity *(note d)*	**23,665**	–
Sales of scrapped materials	**24,544**	53,109
Others	**17,984**	12,252
	372,069	771,523

Notes:

a: Amount represents dividend income from listed investments of RMB1,608,000 (2009: RMB9,976,000) and from unlisted investments of RMB663,000 (2009: nil).

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

c: The gain on debt restructuring in 2009 mainly comprises of a waiver of interest payables to a bank upon full settlement of the principal outstanding.

d: During the year, the Group partially disposed of its investment in a jointly controlled entity to its venturer at a consideration of RMB110,000,000 and a gain of RMB23,665,000 is recognized in profit or loss. The remaining interest in this entity was accounted for as available-for-sale investments, which is initially recognized at its fair value of RMB85,000,000.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

7. FINANCE COSTS

	2010 *RMB'000*	2009 *RMB'000*
Interests on borrowings		
– wholly repayable within five years	**208,186**	441,230
– not wholly repayable within five years	**127,605**	21,603
Interests on convertible loan notes	**42,255**	40,042
Less: amount capitalized	**(63,257)**	(51,457)
	314,789	451,418

Borrowing costs capitalized during the year arose on the general borrowing pool and are calculated by applying a capitalization rate of 5.86% (2009: 5.92%) per annum to expenditure on qualifying assets.

8. INCOME TAX (EXPENSE) CREDIT

	2010 *RMB'000*	2009 *RMB'000*
Current tax:		
Hong Kong Profits Tax	**(3,972)**	(1,960)
PRC Enterprise Income Tax	**(6,634)**	(27,587)
	(10,606)	(29,547)
Overprovision in prior years:		
PRC Enterprise Income Tax	**19,724**	–
Deferred tax *(Note 32)*		
Current year	**(9,599)**	712,674
	(481)	683,127

8. INCOME TAX (EXPENSE) CREDIT (Continued)

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for the year.

PRC Enterprise Income Tax is calculated at 25% on the estimated profit for the year.

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.

According to the Enterprise Income Tax 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.

A subsidiary of the Group incorporated in Macao SAR is exempted from income tax.

A statement of reconciliation of taxation is as follows:

	2010	2009
	RMB'000	*RMB'000*
Profit (loss) before tax	**482,862**	(2,149,096)
Tax calculated at the applicable tax rate of 25%	**(120,716)**	537,274
Tax effect of expenses not deductible for tax purposes	**(31,571)**	(14,312)
Tax effect of income not taxable for tax purposes	**34,620**	4,358
Tax effect of share of results of jointly controlled entities	**14,530**	(14,386)
Tax effect of share of results of associates	**46,141**	62,581
Effect of different income tax rates	**110,820**	116,397
Overprovision in prior years	**19,724**	–
Effect of tax losses and deductible temporary differences not recognized	**(74,029)**	(8,457)
Others	**–**	(328)
Income tax (expense) credit for the year	**(481)**	683,127

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

9. OTHER COMPREHENSIVE LOSS

Other comprehensive loss includes:

	2010	2009
	RMB'000	*RMB'000*
Exchange differences arising on translating foreign operations:		
Exchange differences arising on translation	**(139,760)**	(13,618)
Available-for-sale investments:		
Changes in fair value	**(5,222)**	389,877
Reclassification adjustments for the cumulative gain included in profit or loss upon disposal	**–**	(491,388)
Reclassification adjustments included in profit or loss upon impairment	**16,079**	–
	10,857	(101,511)
Income tax relating to components of other comprehensive loss (see below)	**(420)**	30,170
Other comprehensive loss (net of tax)	**(129,323)**	(84,959)

Tax effects relating to other comprehensive loss are as follows:

	2010			2009		
	Before-tax amount	**Tax expense**	**Net-of-tax amount**	Before-tax amount	Tax (expense) credit	Net-of-tax amount
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Changes in fair value of available-for-sale investments	**(5,222)**	**(420)**	**(5,642)**	389,877	(81,425)	308,452
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available- for-sale investments	**–**	**–**	**–**	(491,388)	111,595	(379,793)
	(5,222)	**(420)**	**(5,642)**	(101,511)	30,170	(71,341)

10. PROFIT (LOSS) FOR THE YEAR

	2010	2009
	RMB'000	*RMB'000*
Profit (loss) for the year has been arrived at after charging (crediting):		
Directors' emoluments *(see Note 11)*	**6,416**	10,215
Other staff benefits *(note a)*	**414,222**	379,464
Total employee benefits expenses	**420,638**	389,679
Depreciation of property, plant and equipment	**242,740**	244,264
Impairment on property, plant and equipment	**40,681**	–
Release of prepaid lease payments	**30,791**	30,276
Amortization of other long-term assets	**14,497**	15,150
Auditors' remuneration	**4,812**	5,274
Minimum lease payments under operating lease in respect of properties *(note c)*	**120,526**	132,306
Direct operating expenses arising from investment properties that generate rental income	**448**	450
Allowance provided on trade receivables	**11,913**	3,384
Write-down of other receivables	**11,277**	8,892
(Gain) loss on disposal of property, plant and equipment	**(3,978)**	399
Write-down of inventories *(note b)*	**70,182**	760,102
Impairment loss on available-for-sale investments included in other expenses and losses	**16,079**	–
Net foreign exchange losses, included in other expenses and losses	**–**	39,538

Notes:

a: Included in other staff benefits are share-based payments and contribution to retirement benefits scheme for the year ended 31 December 2010 of RMB258,000 (2009: RMB2,824,000) and RMB25,650,000 (2009: RMB24,389,000) respectively. The total contribution to retirement benefits scheme of the Group for the year ended 31 December 2010 is RMB25,718,000 (2009: RMB24,415,000).

b: The decrease of net realizable value of fertilizer inventories on hand as at the end of reporting period is due to the decrease of market price. The related write-down of RMB70,182,000 (2009: RMB760,102,000) has been recognized in other expenses and losses.

c: Minimum lease payments under operating lease in respect of retail outlets, offices and warehouses.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

11. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the directors for the year ended 31 December 2010 were as follows:

	2010					
	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefits scheme contribution	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note)			
Mr. Liu De Shu	–	–	–	29	15	44
Mr. Feng Zhi Bin *(appointed on 15 July 2010)*	–	812	322	10	–	1,144
Mr. Du Ke Ping *(resigned on 15 July 2010)*	–	970	254	16	15	1,255
Mr. Harry Yang	–	1,889	408	–	15	2,312
Mr. Yang Lin *(appointed on 26 August 2010)*	–	–	–	–	–	–
Dr. Chen Guo Gang *(resigned on 26 August 2010)*	–	–	–	13	10	23
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Wade Fetzer III	335	–	–	–	10	345
Mr. Ko Ming Tung, Edward	407	–	–	–	–	407
Dr. Tang Tin Sek	407	–	–	–	–	407
Mr. Tse Hau Yin, Aloysius	479	–	–	–	–	479
	1,628	3,671	984	68	65	6,416

Note: The performance related incentive payments were determined with reference to the operating results and individual performance during the years ended December 31, 2009 and 2010, and relevant comparable market statistics.

11. DIRECTORS' REMUNERATION (Continued)

The emoluments paid to each of the directors for the year ended 31 December 2009 were as follows:

	2009					
	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefits scheme contribution	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note)			
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

Note: The performance related incentive payments were determined with reference to the operating results, individual performance and comparable market statistics during the year ended 31 December 2008.

Mr. Liu De Shu, Mr. Yang Lin and Dr. Stephen Francis Dowdle, being Non-executive Directors of the Company, had agreed to waive their director's fee of RMB335,000, RMB117,500 and RMB335,000 respectively for the year ended 31 December 2010 (2009: nil).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

12. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, three (2009: two) were directors of the Company, whose emoluments are disclosed in Note 11. The emoluments of the remaining two (2009: three) individuals were as follows:

	2010 *RMB'000*	2009 *RMB'000*
Salaries and other benefits	**1,133**	1,729
Performance related incentive payments	**389**	2,189
Retirement benefits scheme contributions	**57**	78
Share-based payments	**15**	280
	1,594	4,276

Their emoluments were within the following bands:

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**2**	–
HK$1,500,001 to HK$2,000,000	**–**	3

13. DIVIDENDS

The final dividend of HK$0.0110 (equivalent to approximately RMB0.0094) per share, total dividend of approximately RMB65,715,000 in respect of the year ended 31 December 2010 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting. No dividend was proposed in respect of the year ended 31 December 2009.

	2010 *RMB'000*	2009 *RMB'000*
Dividends recognized as distribution during the year:		
No dividend was paid during 2010 (2009: 2008 final dividends of HK$0.0464, equivalent to approximately RMB0.0409 per share)	**–**	286,912
Proposed final dividend of HK$0.0110, equivalent to approximately RMB0.0094 (2009: no dividend proposed) per share	**65,715**	–

14. EARNINGS (LOSS) PER SHARE

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

	2010	2009
	RMB'000	*RMB'000*
Earnings (loss) for the purpose of basic earnings (loss) per share	**535,711**	(1,443,813)
Effect of dilutive potential ordinary shares:		
Interests on convertible loan notes	**42,255**	–
Changes in fair value of derivative of financial instruments	**(98,327)**	–
Earnings (loss) for the purpose of diluted earnings (loss) per share	**479,639**	(1,443,813)

	2010	2009
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	**7,019,206**	7,013,508
Effect of dilutive potential ordinary shares from:		
Share options	**2,271**	–
Convertible loan notes	**170,742**	–
Weighted average number of ordinary shares for the purpose of diluted earnings (loss) per share	**7,192,219**	7,013,508

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 assumed exercise and conversion would result in a decrease in loss per share.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

15. 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						
As at 1 January 2009	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
Exchange realignment	–	(114)	(46)	(90)	–	(250)
Eliminated on disposals	(977)	(15,104)	(8,468)	(5,116)	(25,059)	(54,724)
Additions	2,176	33,869	6,047	15,913	328,811	386,816
Eliminated on disposal of a subsidiary	(7,341)	(68)	–	(422)	(203,453)	(211,284)
Transfer from construction in progress	552,528	983,467	–	11,374	(1,547,369)	–
As at 31 December 2010	**1,935,168**	**3,410,631**	**67,134**	**179,196**	**160,333**	**5,752,462**
Depreciation and impairment						
As at 1 January 2009	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
Exchange realignment	–	(92)	(40)	(77)	–	(209)
Eliminated on disposal of a subsidiary	(592)	(10)	–	(173)	–	(775)
Charge for the year	56,295	156,029	7,241	23,175	–	242,740
Eliminated on disposals	(219)	(7,685)	(2,417)	(4,846)	–	(15,167)
Impairment loss recognized in profit or loss	–	39,834	824	23	–	40,681
As at 31 December 2010	**186,635**	**579,266**	**28,681**	**109,729**	**–**	**904,311**
Carrying values						
As at 31 December 2010	**1,748,533**	**2,831,365**	**38,453**	**69,467**	**160,333**	**4,848,151**
As at 31 December 2009	1,257,631	2,017,391	46,528	65,910	1,607,403	4,994,863

15. 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

During the year, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired, due to technical obsolescence. Accordingly, impairment losses of RMB39,834,000 and RMB847,000 have been recognised in respect of plant, machinery and equipment and other assets, which are used in the production segment. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. The discount rate in measuring the amounts of value in use was 10.35 % in relation to plant, machinery and equipment.

16. PREPAID LEASE PAYMENTS

	2010 ***RMB'000***	2009 *RMB'000*
At the end of reporting period, the Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
Long-term leases	**2,931**	2,984
Medium-term leases	**544,726**	505,601
	547,657	508,585
Analysis for reporting purposes as:		
Current assets	**31,741**	30,276
Non-current assets	**515,916**	478,309
	547,657	508,585

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

17. INVESTMENT PROPERTIES

	At 1 January 2009 and 31 December 2009 and 2010
	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.

The fair value of the Group's investment properties at 31 December 2010 and 2009 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.

18. GOODWILL

	2010	2009
	RMB'000	*RMB'000*
COST AND CARRYING AMOUNTS		
At 1 January	**579,258**	579,757
Exchange adjustments	**(10,553)**	(499)
At 31 December	**568,705**	579,258

Details on impairment testing on goodwill are disclosed in Note 19.

19. 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:

	2010	2009
	RMB'000	*RMB'000*
Sourcing and distribution	**272,442**	281,919
Production		
– Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan")	**265,357**	265,357
– Others	**30,906**	31,982
	568,705	579,258

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rate 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 2011 approved by the directors of the Company. The growth rates for the first 3 years from 2012 are based on the relevant CGUs past performance and management's expectation for the market development and for the following years are based on steady growth rates.

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

		Production	
	Sourcing and distribution	**Sinochem Pingyuan**	**Others**
Discount rate	9.59%	10.35%	10.35%
Average growth rate for the first three years from 2012	20%	18%	20%
Steady growth rate for the following years	6.8%	7.1%	6.8%

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 2010 and 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

20. OTHER LONG-TERM ASSETS

	Activators
	RMB'000
COST	
At 1 January 2009	51,723
Additions	12,522
At 31 December 2009	64,245
Additions	10,767
At 31 December 2010	**75,012**
AMORTIZATION	
At 1 January 2009	4,922
Charge for the year	15,150
At 31 December 2009	20,072
Charge for the year	14,497
At 31 December 2010	**34,569**
CARRYING VALUES	
At 31 December 2010	**40,443**
At 31 December 2009	44,173

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.

21. INTERESTS IN ASSOCIATES

	2010	2009
	RMB'000	*RMB'000*
At the end of reporting period, cost of investment in associates:		
Listed in the PRC	**6,778,901**	6,778,901
Unlisted	**200,012**	198,795
Share of profits, net of dividends	**213,337**	86,161
	7,192,250	7,063,857
Fair value of listed investments	**9,399,957**	8,087,312

As at 31 December 2010 and 2009, 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	The PRC	The 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	The PRC	The PRC	Ordinary	30%	30%	Production and sales of phosphate rock
Qinghai Ganghua Logistics Co., Ltd. 青島港華物流有限公司	Incorporated	The PRC	The PRC	Ordinary	25%	25%	Logistics services
Tianjin Beihai Industrial Co., Ltd. 天津北海實業有限公司	Incorporated	The PRC	The 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	Incorporated	The PRC	The PRC	Ordinary	40%	40%	Sales of fertilizers

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

21. INTERESTS IN ASSOCIATES (Continued)

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

	2010	2009
	RMB'000	*RMB'000*
Total assets	**10,906,762**	9,772,582
Total liabilities	**(5,001,442)**	(4,564,725)
Net assets	**5,905,320**	5,207,857
Group's share of net assets of associates	**1,146,512**	1,018,119
Revenue	**5,195,071**	4,430,111
Profit for the year	**1,003,850**	1,369,370
Group's share of results of associates for the year	**184,565**	250,322

Included in the cost of investments in associates is goodwill of approximately RMB6,045,738,000 recognized from acquisitions of associates in 2008. The movement of the goodwill is set out below:

	RMB'000
COST	
At 1 January 2009, 31 December 2009 and 2010	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.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Cost of unlisted investments in jointly controlled entities	**507,793**	739,889
Share of profits (losses), net of dividends	**81,693**	(10,881)
	589,486	729,008

The summarized financial information in respect of the Group's interests in jointly controlled entities is set out as follows:

	2010	2009
	RMB'000	*RMB'000*
Financial position		
Non-current assets	**1,176,883**	2,013,454
Current assets	**925,662**	1,024,490
Non-current liabilities	**(333,976)**	(713,409)
Current liabilities	**(1,179,083)**	(1,595,527)
Net assets	**589,486**	729,008

	2010	2009
	RMB'000	*RMB'000*
Results for the year		
Revenue	**1,655,481**	1,597,610
Expenses	**1,589,242**	1,674,088

Details of the principal jointly controlled entities are set out in Note 41.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

23. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Available-for-sale investments comprise:		
Listed equity securities	**174,585**	169,845
Unlisted equity securities	**93,329**	8,379
Less: impairment losses	**(1,290)**	(1,290)
	266,624	176,934

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 subsequently 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.

In the current year, the Group disposed of 22.17% equity interest in Tianji Sinochem Gaoping, a company established in PRC. Before the disposal, the Group held 40% equity interests in Tianji Sinochem Gaoping and it was treated as a jointly controlled entity of the Group. After the disposal, the Group is no longer in a position to exercise either joint control or significant influence over Tianji Sinochem Gaoping. The investment in Tianji Sinochem Gaoping was measured at fair value at the time when the Group lost joint control over Tianji Sinochem Gaoping, with the resulting gain recognized in profit or loss. The fair value of RMB85,000,000 of the investment in Tianji Sinochem Gaoping at the date when the Group ceased to have joint control over Tianji Sinochem Gaoping is regarded as the fair value on initial recognition as an available-for-sale investment in accordance with HKAS 39.

24. INVENTORIES

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Fertilizer merchandise and finished goods	**4,561,327**	5,289,927
Raw materials	**532,514**	508,453
Work in progress	**35,005**	18,706
Consumables	**9,242**	11,815
	5,138,088	5,828,901

25. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Trade receivables	**62,020**	518,519
Less: allowance for doubtful debts	**(16,120)**	(4,207)
	45,900	514,312
Bills receivables	**3,013,984**	2,261,466
Total trade and bills receivables	**3,059,884**	2,775,778

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

	2010	2009
	RMB'000	*RMB'000*
Within three months	**43,989**	474,494
More than three months, but not exceeding six months	**456**	5,299
More than six months, but not exceeding one year	**849**	34,098
Exceeding one year	**606**	421
	45,900	514,312

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 are debtors with aggregate carrying amount of RMB1,911,000 (2009: RMB39,818,000) which are past due at the end of the reporting period for which the Group has not provided for allowance for doubtful 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 280 days (2009: 258 days).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

25. TRADE AND BILLS RECEIVABLES (Continued)

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

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
More than three months, but not exceeding six months	**456**	5,299
More than six months, but not exceeding one year	**849**	34,098
Exceeding one year	**606**	421
Total	**1,911**	39,818

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

	2010	2009
	RMB'000	*RMB'000*
Balance at 1 January	**4,207**	823
Allowance provided on trade receivables	**11,913**	3,384
Balance at 31 December	**16,120**	4,207

Regarding to the allowance for doubtful debts are individually impaired trade receivables with an aggregated balance of RMB16,120,000 (2009: RMB4,207,000) 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 nor impaired at the end of the reporting period:

	2010	2009
	RMB'000	*RMB'000*
Within three months	**705,802**	1,429,528
More than three months, but not exceeding six months	**2,308,182**	831,938
	3,013,984	2,261,466

26. OTHER DEPOSITS

The other deposits consisted of principal-protected financial products issued by a financial institution in the PRC, which carried at fixed interest rate of 1.5% per annum. It is accounted for as loans and receivables at amortized cost. The Group has the right to redeem the other deposits at any time. The directors of the Company consider the other deposits as a current asset since the Group plans to withdraw the balances within one year after the end of the year. Subsequent to 31 December 2010, the principal and the interest have been redeemed.

27. 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 0.36% (2009: 0.72%) per annum at 31 December 2010.

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 2.25% (2009: 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.

	2010	2009
	RMB'000	*RMB'000*
United States dollars ("US$")	**229**	1,123
Euro ("EUR")	**–**	10,193

28. TRADE AND BILLS PAYABLES

As at 31 December 2010, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	2010	2009
	RMB'000	*RMB'000*
Within three months	**2,161,941**	1,210,304
More than three months, but not exceeding six months	**260,009**	711,786
More than six months, but not exceeding one year	**34,088**	61,018
Exceeding one year	**119,769**	211,379
	2,575,807	2,194,487

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

29. 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 by the Company for redemption before 7 August 2011 (maturity date), then the holders have the option 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$3.64 on 10 June 2009 (details 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%.

29. CONVERTIBLE LOAN NOTES (Continued)

No redemption was demanded by the holders on 7 August 2009. As at 31 December 2010, the liability component and derivative component of the convertible loan notes are classified as current liabilities as the maturity date of the notes, which is on 7 August 2011, falls within the next year. 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 2009	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
Interest charge	42,255	–
Changes in fair value	–	(98,327)
Exchange adjustment	(22,009)	(2,790)
As at 31 December 2010	**646,486**	**48,058**

The fair value of the derivative component at 31 December 2010 is determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent professionally qualified valuer, using the applicable pricing model.

30. BORROWINGS

	As at 31 December	
	2010 ***RMB'000***	2009 *RMB'000*
Bank loans, secured	**119,794**	2,172,643
Bank loans, unsecured	**3,967,479**	2,919,422
Bonds *(Note)*		
Principal amount	**2,500,000**	2,500,000
Less: unamortized transaction costs	**(20,915)**	(23,265)
	6,566,358	7,568,800

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

30. BORROWINGS (Continued)

Note: 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 at 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.

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Carrying amount repayable:		
Within one year	**2,993,369**	3,767,871
More than one year, but not exceeding two years	**568,904**	198,877
More than two years, but not exceeding five years	**515,000**	1,005,317
Exceeding five years	**2,489,085**	2,596,735
	6,566,358	7,568,800
Less: Amounts due within one year shown under current liabilities	**(2,993,369)**	(3,767,871)
Amounts shown under non-current liabilities	**3,572,989**	3,800,929

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

	2010	2009
	RMB'000	*RMB'000*
Fixed-rate borrowings:		
Within one year	**149,794**	2,447,084
More than one year, but not exceeding two years	**108,904**	88,877
More than two years, but not exceeding five years	**84,000**	153,317
Exceeding five years	**2,489,085**	2,476,735
	2,831,783	5,166,013

30. BORROWINGS (Continued)

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

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Variable-rate borrowings:		
Within one year	**2,843,575**	1,320,787
More than one year, but not exceeding two years	**460,000**	110,000
More than two years, but not exceeding five years	**431,000**	852,000
Exceeding five years	**–**	120,000
	3,734,575	2,402,787

Interests on variable-rate borrowings 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:

	2010	2009
Effective interest rates:		
Fixed-rate borrowings	**2.550% to 5.760%**	1.550% to 5.760%
Variable-rate borrowings	**0.683% to 5.940%**	1.625% to 6.030%

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

30. BORROWINGS (Continued)

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

	2010	2009
	RMB'000	*RMB'000*
Variable-rate borrowing facilities		
– expiring within one year	**21,459,229**	22,747,629
– expiring beyond one year	**12,560,441**	10,597,340
	34,019,670	33,344,969

At 31 December 2010, certain property, plant and equipment, prepaid lease payments and bills receivables with carrying values of approximately RMB171,516,000 (2009: RMB640,373,000), RMB27,306,000 (2009: RMB37,947,000) and RMB64,794,000 (2009: RMB2,074,808,000), respectively were pledged to secure banking facilities granted to the Group.

31. ISSUED EQUITY

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

	2010	2009
	RMB'000	*RMB'000*
At 1 January	**8,248,928**	8,233,245
Issue of new shares of par value of HK$0.10 each:		
Exercise of options	**12,049**	15,683
At 31 December	**8,260,977**	8,248,928

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 2009 and 2010, 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, shares upon exercise of share options and additional shares from conversion of the convertible loan notes, after deducting the costs of issuing the new shares.

31. ISSUED EQUITY (Continued)

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

	Number of shares *'000*	Nominal value *HK$'000*	Equivalent to *RMB'000*
Ordinary shares			
Authorized:			
Ordinary shares of HK$0.10 each at 1 January 2009 and 31 December 2009 and 2010	80,000,000	8,000,000	
Issued and fully paid:			
Ordinary shares of HK$0.10 each at 1 January 2009	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
Exercise of options	5,556	556	484
Ordinary shares of HK$0.10 each at 31 December 2010	7,020,907	702,091	691,458

	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 2010 and 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

32. 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:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Deferred tax assets	**868,894**	895,316
Deferred tax liabilities	**(54,048)**	(68,550)
	814,846	826,766

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 2009	(28,535)	(76,808)	27,075	113,909	39,850	6,106	2,325	83,922
Credit (charge) 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
Credit (charge) to profit or loss for the year	–	6,622	(17,275)	(160,605)	149,760	8,413	3,486	(9,599)
Credit to other comprehensive income for the year	(420)	–	–	–	–	–	–	(420)
Disposal of a subsidiary (Note 43)	–	–	–	–	(1,901)	–	–	(1,901)
At 31 December 2010	**1,215**	**(63,563)**	**4,775**	**33,594**	**819,480**	**13,244**	**6,101**	**814,846**

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 RMB3,278,658,000 (2009: RMB2,731,620,000) that can be carried forward against taxable income in the coming five years. No tax loss expired in current year (2009: Nil). No deferred tax assets were recognized on the remaining tax losses of approximately RMB793,694,000 (2009: RMB649,587,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable. Included in the unrecognized tax losses are losses of RMB242,662,000 that will expire before 31 December 2015 (2009: RMB118,314,000 that will expire before 31 December 2014). Other losses may be carried forward indefinitely.

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

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.

Under the tax laws of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to overseas investors from 1 January 2008 onwards. As the Company controls the dividend policy of its PRC subsidiaries, it has the ability to control the timing of the reversal of temporary differences associated with the investment in subsidiaries. Furthermore, the Company has determined that those profits earned by its PRC subsidiaries will not be distributed to overseas investors in the foreseeable future. As such, deferred taxation has not been provided for in respect of temporary differences attributable to accumulated profits of PRC subsidiaries of RMB47,860,000 (2009: RMB35,590,000) at 31 December 2010.

33. 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 entities 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

33. 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 Company and its subsidiaries, 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 were forfeited. 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 2010, the number of shares in respect of which options had been granted and remained outstanding was 6,891,528 (2009: 20,297,468), representing 0.10 % (2009: 0.29%) of the shares of the Company in issue as at 31 December 2010. The total number of option shares available for granting under the New Share Option Scheme at 31 December 2010 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.

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

As at 31 December 2010, 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	1,900
	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Mr. DU Ke Ping *(Note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	609,900
(resigned on 15 July 2010)	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Mr. Harry YANG *(Note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	600
	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Mr. Wade FETZER III *(Note a)*	28 August 2007	28 August 2009 to 27 August 2013	4.990	128,000
Employees	23 January 2006	23 January 2008 to 22 January 2012	1.672	3,178,400
	28 August 2007	28 August 2009 to 27 August 2013	4.990	2,214,728
Other eligible participant	28 August 2007	28 August 2009 to 27 August 2013	4.990	128,000
				6,891,528

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

33. 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)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	474,600
(resigned on 16 November 2009)	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

Notes:

a. Non-Executive Director of the Company

b. Executive Director of the Company

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

Details of specific categories of options are as follows:

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

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

	Outstanding at 1 January	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December
2010	**20,297,468**	**–**	**(7,850,650)**	**(5,555,290)**	**6,891,528**
Exercisable at the end of the year					**6,891,528**
Weighted average exercise price	**HK$3.012**	**–**	**HK$3.646**	**HK$1.928**	**HK$3.165**
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

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$4.78 (2009: HK$4.00).

The Group recognized the total expense of approximately RMB323,000 (2009: RMB3,700,000) for the year ended 31 December 2010 in relation to share options granted by the Company.

34. 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, retained profits and other reserves.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2010	2009
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including pledged bank deposits, cash and cash equivalents and other deposits)	**3,490,702**	3,315,991
Available-for-sale investments	**266,624**	176,934
Financial liabilities		
Derivative financial instruments	**48,058**	149,175
At amortized cost	**10,082,435**	10,943,758

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, other deposits, trade and bills receivables, other receivables, bank balances and cash, 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 transactions, which expose the Group to currency risk. Since the monetary items denominated in foreign currencies are not significant, the Group considers the currency risk was insignificant 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.

35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(i) Currency risk (Continued)

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	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
US$	**30,153**	66,148	**358**	131,945
EUR	**–**	–	**–**	10,193

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% (2009: 2%) increase and decrease in the functional currency of relevant entities against US$. 2% (2009: 2%) is the sensitivity rate represents the management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to relevant functional currencies at year end for a 2% (2009: 2%) change in foreign currency rates. The following table illustrates the sensitivity to profit or loss where relevant functional currencies strengthen 2% (2009: 2%) against US$. For a 2% (2009: 2%) weakening of relevant functional currencies against US$, there would be an equal and opposite impact on profit (loss) for the year.

	2010 **RMB'000**	2009 RMB'000
Increase in profit (loss) for the year	**(447)**	987

35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see Notes 29 and 30 for details of these convertible loan notes and borrowings) and other deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 30 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.

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 (2009: 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 (2009: 100 basis points) higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2010 would decrease/increase by approximately RMB29,172,000 (2009: loss increase/decrease by approximately RMB13,730,000). 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 increased during the current year mainly due to the increase in variable-rate borrowings.

35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk (Continued)

(iii) Other price risk

The Group is exposed to equity price risk through its investments in equity securities and its derivative financial liabilities. The Group's equity price risk 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 and the Singapore Exchange Limited. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk.

Sensitivity analysis

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

Available-for-sale investments

If the prices of the respective listed equity instruments had been 10% (2009: 10%) higher/ lower:

- investment valuation reserve would increase/decrease by approximately RMB16,894,000 (2009: RMB16,462,000) 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:

- profit for the year ended 31 December 2010 would decrease by approximately RMB12,056,000/increase by approximately RMB10,442,000 (2009: loss increase by approximately RMB20,074,000/decrease by approximately RMB6,722,000) for the Group as a result of the changes in fair value of derivative financial instruments.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

35. FINANCIAL INSTRUMENTS (Continued)

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2010 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 and other deposits which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of 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 2010, the Group has available unutilized bank loan facilities of approximately RMB34,019,670,000 (2009: RMB33,344,969,000). Details are set out in Note 30.

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 maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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 at the end of the reporting period.

35. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity tables

2010

	Weighted average interest rate %	On demand or 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 2010 RMB'000
Financial liabilities								
Trade and bills payables	–	413,866	2,161,941	–	–	–	2,575,807	2,575,807
Borrowings								
– fixed rate	5.13	16,618	82,503	187,422	703,932	2,973,819	3,964,294	2,831,783
– variable rate	2.90	908,663	1,432,071	567,336	955,498	–	3,863,568	3,734,575
Other payables	–	293,784	–	–	–	–	293,784	293,784
Convertible loan notes *(Note)*	4.93	–	–	672,836	–	–	672,836	694,544
		1,632,931	3,676,515	1,427,594	1,659,430	2,973,819	11,370,289	10,130,493

2009

	Weighted average interest rate %	On demand or 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
		1,886,301	2,129,754	2,732,218	2,547,915	3,217,244	12,513,432	11,092,933

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.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

35. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices; 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).

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:

	2010		2009	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial liabilities				
Convertible loan notes (Liability component)	**646,486**	**647,484**	626,240	613,629

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).

35. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

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

	31 December 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Listed available-for-sale investments	**174,585**	**–**	**–**	**174,585**
Derivative financial instruments	**–**	**–**	**48,058**	**48,058**
Total	**174,585**	**–**	**48,058**	**222,643**

	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:

	2010	2009
	RMB'000	*RMB'000*
Derivatives		
At 1 January	**149,175**	199,204
Changes in fair value recognized in profit or loss	**(98,327)**	(49,712)
Exchange differences	**(2,790)**	(317)
At 31 December	**48,058**	149,175

Of the total gains for the year included in profit or loss, RMB98,327,000 (2009: RMB49,712,000) relates to derivative financial instruments held at the end of the reporting period. Fair value gains on derivative financial instruments are included in changes in fair value of derivative financial instruments.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

36. CONTINGENT LIABILITIES

At 31 December 2010 and 2009, the Group had no material contingent liabilities.

37. CAPITAL COMMITMENTS

	2010	2009
	RMB'000	*RMB'000*
Capital expenditure in respect of property, plant and equipment:		
Contracted but not provided for	**26,117**	69,983
Authorized but not contracted for	**1,848,543**	149,981
	1,874,660	219,964

38. OPERATING LEASES

The Group as lessor

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

	2010	2009
	RMB'000	*RMB'000*
Within one year	**789**	291
More than one year, but not exceeding five years	**620**	–
	1,409	291

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 market price.

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:

	2010	2009
	RMB'000	*RMB'000*
Within one year	**72,519**	67,288
More than one year, but not exceeding five years	**11,975**	47,245
Exceeding five years	**5,677**	6,198
	90,171	120,731

Operating lease payments represent rentals payable by the Group for certain of retail outlets, offices and warehouses. Leases are normally negotiated for an average term of 1-2 years and rentals are fixed for an average of 1-2 years.

39. RELATED PARTY TRANSACTIONS

The related parties that had transactions with the Group during the year ended 31 December 2010 and 2009 were as follows:

Fellow subsidiaries

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

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

Jointly controlled entities

Yunnan Three Circle-Sinochem-Cargill Fertilizer Co., Ltd. ("Sinochem Cargill")
(雲南三環中化嘉吉化肥有限公司)

Yunnan Three-Circle Sinochem Fertilizer Co., Ltd. ("Three-Circle Sinochem")
(雲南三環中化化肥有限公司)

Guiyang Sinochem Kailin Fertilizer Co., Ltd. ("Sinochem Kailin")
(貴陽中化開磷化肥有限公司)

Tianji Sinochem Gaoping
(天脊中化高平化工有限公司) (disposed in 2010)

Gansu Wengfu Chemical Co., Ltd. ("Gansu Wengfu")
(甘肅瓮福化工有限責任公司)

Associates

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

Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. ("Guizhou Xinxin")
(貴州鑫新工農貿易有限公司)

Yara Sinochem Environmental Protection (Qingdao) Limited ("Yara Sinochem")
(雅苒中化環保（青島）有限公司)

A subsidiary of a shareholder with significant influence over the Company

PCS Sales (USA) Inc. ("PCS Sales")

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

39. 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:

	2010 *RMB'000*	2009 *RMB'000*
Sales of fertilizers to		
Sinochem Group	**154**	333,295
Three-Circle Sinochem	**–**	30,772
Yara Sinochem	**1,468**	–
	1,622	364,067
Purchases of fertilizers from		
Sinochem Group	**228,602**	684,822
Qinghai Salt Lake	**182,537**	1,927,557
Tianji Sinochem Gaoping	**424,179**	891,361
Three-Circle Sinochem	**750,764**	526,497
Gansu Wengfu	**313,308**	193,701
Guizhou Xinxin	**60,021**	78,382
Sinochem Cargill	**11,301**	34,212
PCS Sales	**330,362**	–
	2,301,074	4,336,532
Import service fee paid to		
Sinochem Group	**191**	51
Sinochem (United Kingdom) Limited	**11,490**	13,613
	11,681	13,664
Office rental fee paid to		
Chemsunny Ltd.	**15,536**	15,572

39. RELATED PARTY TRANSACTIONS (Continued)

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

	2010	2009
	RMB'000	*RMB'000*
Advance payments to suppliers		
Tianji Sinochem Gaoping	**–**	58,448
Qinghai Salt Lake	**361,545**	39,349
Gansu Wengfu	**38,148**	27,000
	399,693	124,797
Trade payables		
Sinochem Group	**58,847**	45,833
Qinghai Salt Lake	**–**	235,800
Three-Circle Sinochem	**30,881**	17,077
PCS Sales	**64,995**	–
	154,723	298,710
Other receivables		
Sinochem Kailin	**10,153**	6,903
Chemsunny Ltd.	**4,281**	4,236
	14,434	11,139

(c) Compensation of key management personnel

Key management personnel 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

39. 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.

	2010	2009
	RMB'000	*RMB'000*
Trade and bills receivables	**714,804**	269,436
Advance payments to suppliers and other receivables	**188,488**	235,206
Trade and bills payables	**67,019**	104,125
Receipts in advance and other payables	**113,655**	71,934

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

	2010	2009
	RMB'000	*RMB'000*
Sales of fertilizers	**2,734,999**	2,166,629
Purchase of fertilizers	**4,348,915**	3,844,867

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

40. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2010 and 2009:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2010	2009	
Directly held:					
China Fertilizer (Holdings) Co., Ltd.	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 Co., Ltd. (中化化肥有限公司) *(Note a)*	The 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 SAR	MOP100,000	**100%**	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Co., Ltd. *(Note c)* (綏芬河新凱源貿易有限公司)	The PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. *(Note c)* (福建中化智勝化肥有限公司)	The PRC	RMB47,000,000	**53.19%**	53.19%	Sales and manufacturing of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. *(Note c)* (中化重慶涪陵化工有限公司)	The PRC	RMB80,000,000	**60%**	60%	Sales and manufacturing of fertilizers
Sinochem Yantai Crop Nutrition Co., Ltd. *(Note b)* (煙台中化作物營養有限公司)	The PRC	US$241,000	**51%**	51%	Sales and manufacturing of fertilizers

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

40. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group 2010	2009	Principal activities
Indirectly held: (Continued)					
Manzhouli Kaiming Fertilizer Co., Ltd. *(Note c)* (滿洲里凱明化肥有限公司)	The PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Sinochem Pingyuan Chemical Co., Ltd. *(Note c)* (中化平原化工有限公司) (Formerly known as "Shandong Deqilong Chemical Co., Ltd." 前稱"山東德齊龍化工集團有限公司")	The PRC	RMB300,000,000	**75%**	75%	Sales and manufacturing of fertilizers
Sinochem Jilin Changshan Chemical Co., Ltd. *(Note c)* (中化吉林長山化工有限公司) (Formerly known as "Jilin Fertilizer and Pesticide Group Co., Ltd." 前稱"吉林化肥農藥集團有限公司")	The PRC	RMB589,590,000	**90.81%**	90.81%	Sales and manufacturing of fertilizers
Hubei Sinochem Orient Fertilizer Co., Ltd. *(Note c)* (湖北中化東方肥料有限公司)	The PRC	RMB30,000,000	**80%**	80%	Sales and manufacturing of fertilizers
Sinochem Shandong Fertilizer Co., Ltd. *(Note c)* (中化山東肥業有限公司)	The PRC	RMB100,000,000	**51%**	51%	Sales and manufacturing of fertilizers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd. *(Note c) (Note d)* (中化肥美特農資連鎖有限公司)	The PRC	RMB100,000,000	**100%**	N/A	Fertilizers retailing
Sinochem Ningxia Chemical Co., Ltd. *(Note c) (Note d)* (中化寧夏化工有限公司)	The PRC	RMB160,000,000	**100%**	N/A	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.

None of the subsidiaries had issued any debt securities at the end of the year.

Note a: Foreign invested enterprise

Note b: Sino-foreign enterprise

Note c: Domestic company

Note d: Established in 2010

41. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the principal jointly controlled entities of the Group as at 31 December 2010 and 2009:

Name of jointly controlled entities	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group	Principal activities
			(Note a)	
Indirectly held:				
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Co., Ltd. (天津北方化肥物流配送有限公司) *(note b)*	The PRC	RMB3,000,000	60%	Fertilizer logistics
Yunnan Three Circle-Sinochem-Cargill Fertilizer Co., Ltd. (雲南三環中化嘉吉化肥有限公司)	The PRC	US$29,800,000	25%	Sales and manufacturing of fertilizers
Yunnan Three-Circle Sinochem Fertilizer Co., Ltd. (雲南三環中化化肥有限公司)	The PRC	RMB600,000,000	40%	Sales and manufacturing of fertilizers
Gansu Wengfu Chemical Co., Ltd. (甘肅瓮福化工有限責任公司)	The PRC	RMB181,100,000	30%	Sales and manufacturing of fertilizers
Tianji Sinochem Gaoping Chemical Limited (天脊中化高平化工有限公司) *(note c)*	The 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.

c. The Group partially disposed its interest in Tianji Sinochem Gaoping in 2010, and lose its joint control over the jointly control entity.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2010

42. RETIREMENT BENEFITS SCHEME CONTRIBUTION

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

43. DISPOSAL/LIQUIDATION OF SUBSIDIARIES

(a) Pingyuan County Xianglong Paper Co., Ltd.

On 31 December 2010, the Group disposed of its 100% owned subsidiary, Pingyuan County Xianglong Paper Co., Ltd. 平原縣翔龍紙業有限公司 ("Xianglong"). The net liabilities of Xianglong, at the date of disposal, are as follows:

	31 December 2010 *RMB'000*
Consideration for the disposal *(Note)*:	**37,000**
Total consideration to be paid	**37,000**
Analysis of assets and liabilities over which control was lost:	
Deferred tax assets	**1,901**
Property, plant and equipment	**210,509**
Current assets	**9,178**
Current liabilities	**(309,850)**
Net liabilities disposed of	**(88,262)**
Gain on disposal of a subsidiary:	
Consideration to be paid	**37,000**
Net liabilities disposed of	**(88,262)**
Gain on disposal	**(51,262)**
Net cash outflow arising on disposal:	
Cash consideration	**–**
Less: bank balances and cash disposed of	**(1)**
	(1)

Note: The Group disposed of Xianglong to Shandong Pingyuan Economic Development and Investment Co. Ltd., the non-controlling interest of a subsidiary of the Company by paying a consideration of RMB37,000,000. Both parties agreed to settle the consideration by a waiver of other payables from Xianglong to the Group.

43. DISPOSAL/LIQUIDATION OF SUBSIDIARIES (Continued)

(b) 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 current assets	28,011
	29,043
Non-controlling 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)

Five-Year Financial Summary

	For the year ended 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*HK$'000*	*HK$'000*
				(restated)	
Revenue	**29,271,077**	27,010,709	45,392,885	28,381,689	21,126,571
Profit (loss) before tax	**482,862**	(2,149,096)	2,084,237	978,294	1,003,973
Income tax (expense) credit	**(481)**	683,127	(176,430)	(316,400)	(99,191)
Profit (loss) for the year	**482,381**	(1,465,969)	1,907,807	661,894	904,782
Attributable to					
Owners of the Company	**535,711**	(1,443,813)	1,912,555	641,142	896,246
Non-controlling interests	**(53,330)**	(22,156)	(4,748)	20,752	8,536
	482,381	(1,465,969)	1,907,807	661,894	904,782

	At 31 December				
	2010	2009	2008	2007	2006
	RMB'000	*RMB'000*	*RMB'000*	*HK$'000*	*HK$'000*
				(restated)	
Total assets	**25,444,563**	25,291,151	30,125,080	17,617,314	10,509,075
Total liabilities	**(12,510,529)**	(12,756,113)	(15,754,715)	(9,854,532)	(5,965,104)
Net assets	**12,934,034**	12,535,038	14,370,365	7,762,782	4,543,971

中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

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