

Chairman's Statement

Dear shareholders:

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

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

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

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

Working to maximize shareholders' value, the Board of Directors has constantly improved the level of corporate governance and endeavored to bring into place a highly effective, standardized and rational corporate governance mechanism for scientific decision making. In compliance with the provisions set out in Appendix 14 to the Code on Corporate Governance Practices, the Company held four regular meetings of the Board of Directors, at which the annual report, interim report, dividend policy, corporate development strategy and other issues were deliberated and approved. Meanwhile, through irregular meetings, the Board of Directors also examined other important matters such as strategic investments and connected transactions. The Audit Committee, the Remuneration Committee and the Nomination Committee have also exercised their rights and fulfilled their



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obligations as entrusted by the Board of Directors, in their respective work of enhancing internal control, optimizing remuneration and incentives and perfecting the governance structure of the Company. In second half 2006, a specialized agency appointed by the Audit Committee conducted a systematic evaluation and optimization of the Company's financial monitoring, internal control and risk management procedures.

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

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

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

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

Liu De Shu
Chairman of the Board

Hong Kong, 12 April 2007

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Note – Potash contract negotiations

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

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