



Corporate Governance Report

Summary of Duties of the Board of Directors and Various Committees

Board of Directors

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Appointed as Executive Director on 6 March 2006

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

Audit Committee

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

The primary responsibilities of the Audit Committee are:

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



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

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

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

- Reviewed the Directors' report, financial statements, the annual report and results announcement in respect of the financial position of the Group for the year ended 31 December 2006, and recommended their approval by the Board;
- Reviewed the interim financial statements, interim report and results announcement of the Company for the six months ended 30 June 2006, and recommended their approval by the Board;
- Reviewed and discussed significant issues contained in the above;
- Recommended the appointment of auditors, the terms of its engagement and annual audit fees of the Group for the year ended 31 December 2006 to the Board;
- As at the date of this report, the Audit Committee had completed its review on the financial control, internal control and risk management system of the Group for the year ended 31 December 2006, and made sufficient communication with the management on related matters;
- Reviewed the independence of the auditors and discussed the audit service plan, scope and relevant responsibility before the commencement of audit/review works by the Auditors;
- Met with the auditors separately without the management's participation;
- Reviewed the continuing connected transactions conducted in 2006.

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Remuneration Committee

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

The primary responsibilities of Remuneration Committee are:

- to make recommendations to the Board on the policy and structure of remuneration of directors and senior management and on establishment of a formal and transparent procedure for developing such remuneration policy;
- to determine the remuneration packages of all Executive Directors and senior management including benefits in kind, pension rights and compensation payments (including those in relation to loss or termination of their office or appointment), and to make recommendation to the Board on the remuneration of Non-executive Directors;
- to review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time;
- to review and approve the compensation arrangements to Executive Directors and senior management in connection with any loss or termination of their office or appointment or dismissal or removal of directors for misconduct;
- to ensure that no director or any of his associates is involved in deciding his own remuneration.



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

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

The Remuneration Committee completed the following works during the year:

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

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

Nomination Committee

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

The primary responsibilities of the Nomination Committee are:

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



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

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

The Nomination Committee completed the following works during the year:

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

Auditors

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



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Investor Relationship and Information Disclosure

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

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

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

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

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

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

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

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Internal Control

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

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

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

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

Financial Management

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



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

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

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

Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listing Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all directors, and the directors have confirmed that they had complied with the required standards set out in the Model Code for the year under review.

Compliance with the Code on Corporate Governance Practices

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

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

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Safety, Health and Environment

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

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

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

2. Adhere to the policy of “Priority in Prevention” to improve the Safety Warning Mechanism

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

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

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

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

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