

## Directors' Report

The Directors are pleased to present their report together with the consolidated financial statements of the Group for the year ended 31 December 2006.

### Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group are the production, import and export, distribution and retail of fertilizer raw materials and finished products, and technical research and development and services relating to the fertilizer business and products.

An analysis of the Group's performance for the year by business segment is set out in note 7 to the consolidated financial statements.

### Major Customers and Suppliers

The total sales attributable to the Group's five largest customers were less than 30% of the Group's total sales for year 2006.

The total purchases attributable to the Group's five largest suppliers were less than 30% of the Group's total purchases for year 2006.

Save for the foregoing, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the five largest customers or suppliers. PotashCorp holds one-third equity interest in one of the five largest suppliers of the Group, while Sinochem Corporation holds equity interest in another company amongst the five largest suppliers of the Group.

### Results and Appropriations

The results of the Group for the year are set out in the Consolidated Income Statement on page 67.

The Directors proposed the payment of final dividend of 2.31 HK cents per share for the financial year ended 31 December 2006, making a total of dividend payment of HK\$134,437,000.

### Closure of Register of Members

The Register of Members will be closed from 22 June 2007 to 28 June 2007, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfer must be lodged with the Company's branch registrar in Hong Kong, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 21 June 2007.

It is expected that the relevant dividend will be payable to those entitled on or about 6 July 2007 subject to the shareholders' approval in the annual general meeting of the Company to be held on 28 June 2007.

## Directors' Report

### Reserves

Movements in the reserves of the Group during the year are set out from pages 70 to 71 in the Consolidated Statement of Changes in Equity.

### Share Capital

There was no movement in the share capital of the Company during the year.

### Distributable Reserves

As at 31 December 2006, the distributable reserves of the Company amounted to HK\$137,372,000.

### 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 131.

### Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year ended on 31 December 2006 are set out in note 17 to the consolidated financial statements.

### Donations

The Company made no charitable donation for the year ended 31 December 2006.

### Principal Property

Details of the Group's principal property held for investment purposes are set out on page 131.

### Purchase, Sale or Redemption of Listed Securities

The Company had not redeemed any of the Company's listed securities during the year. Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's listed securities during the year.

### Major Discloseable Events

*Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies involved in this section shall have the same meanings assigned to them in the circulars and the related announcements.*

Sinochem HK had completed the Placing and the sale of the Option Shares to the Investor (PotashCorp) on 9 February 2006 and 24 February 2006 respectively. As a result, Sinochem HK and the Investor are currently interested in approximately 53.53% and 20% of the Company's issued ordinary share capital respectively and approximately 26.47% of the issued Shares are held by the public in compliance with the public float requirements under Rule 8.08 of the Listing Rules. For detailed information in this regard, please refer to the announcements respectively issued by the Company on 27 January 2006, 6 February 2006 and 24 February 2006.



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In July 2006, the Company issued the zero-coupon Convertible Bonds in the principal amount of HK\$1,300,000,000, which will be due on 23 July 2011 and the initial Conversion Price was HK\$3.74 (subject to adjustment). Based on the initial Conversion Price, the Bonds will be convertible into 347,593,583 Conversion Shares, representing approximately 5.98% of the issued share capital of the Company as at the issue date and approximately 5.65% of the enlarged issued share capital of the Company. The Conversion Shares will rank pari passu in all respects with the Shares in issue. For detailed information in this regard, please refer to the announcement issued by the Company on 21 July 2006.

In addition, for the year ended 31 December 2006, the Company had neither issued any new ordinary shares upon the exercise of the conversion right of the Bonds, nor redeemed any of the Convertible Bonds.

On 16 November 2006, the Special General Meeting of the Company approved that the name of the Company be changed from "Sinochem Hong Kong Holdings Limited" to "Sinofert Holdings Limited" and, for identification purposes only, a new Chinese name of "中化化肥控股有限公司" had also been adopted by the Company to replace the existing Chinese name of "中化香港控股有限公司". With effect from 14 December 2006, the shares of the Company were traded under a new name. The English stock short name of the Company was changed from "SINOCHEM HK" to "SINOFERT" and the Chinese stock short name was changed from "中化香港控股" to "中化化肥". The stock code of the Company of "297" remains unchanged. For detailed information in this regard, please refer to the Circular dated 20 October 2006 and the announcement on 11 December 2006.

### Utilization of the fund financed

In 2006 the Company issued convertible bonds from which net proceeds of HK\$1.27 billion was received (please refer to the announcement of the Company dated 21 July 2006 for details). As disclosed in the announcement, the above-mentioned proceeds shall be primarily used in the production of fertilizers for the Group and in expanding the distribution network, and the remaining for general purposes. As at 31 December 2006, HK\$538 million out of the above proceeds was used for fertilizer production, HK\$21 million was used for expanding distribution network, and the remaining amount for general purposes of the Company.

## Directors' Report

### Connected Transactions

*Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies involved in this section shall have the same meanings assigned to them in the circulars and the related announcements.*

For the year ended 31 December 2006, the Group had the following transactions which constitute connected transactions under the Listing Rules of Hong Kong Stock Exchange (hereinafter referred to as "Listing Rules") and are hereby disclosed pursuant to the Chapter 14A of the Listing Rules.

#### 1. The New Connected Transactions in 2006

The Company had disclosed in its 2005 Annual Report the connected transactions for the year ended 31 December 2005, which were subject to reporting, announcement and/or independent shareholders' approval under the Chapter 14A of the Listing Rules. From 1 January 2006 to 31 December 2006, the Group conducted the following new connected transactions subject to reporting, announcement and/or independent shareholders' approval under the Chapter 14A of the Listing Rules:

**(1) Continuing Connected Transactions for the Logistics Services: (1) SF Service Agreement between Sinochem Fertilizer and Tianjin Beihai; (2) Tianjin Beifang Service Agreement between Tianjin Beifang and Tianjin Beihai**

On 21 February 2006, Sinochem Fertilizer and Tianjin Beifang entered into the SF Service Agreement and Tianjin Beifang entered into the Tianjin Beifang Service Agreement with Tianjin Beihai respectively, pursuant to which Tianjin Beihai will provide logistics services to Sinochem Fertilizer and Tianjin Beifang in relation to its fertilizers at the port of Tianjin. The SF Service Agreement and the Tianjin Beifang Service Agreement, when aggregated as if they were one transaction pursuant to the Listing Rules, constituted a continuing connected transaction of the Company and were subject to the reporting and announcement requirements, but were exempted from the independent shareholders' approval requirements under the Listing Rules.

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

For detailed information upon the aforesaid transaction, please refer to the announcement issued by the Company on 24 February 2006.

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**(2) Continuing Connected Transactions between Sinochem Macao and Canpotex Limited for Importing Canadian Potash**

Upon completion of the sale and purchase of the Option Shares by Potash Corporation of Saskatchewan Inc. (the "Investor") respectively on 9 February 2006 and 24 February 2006 (For detailed information, please refer to the announcements issued by the Company on 27 January 2006, 6 February 2006 and 24 February 2006.), the Investor became a substantial shareholder, and therefore a connected person, of the Company. Hence, the ongoing transactions relating to the sales and purchase of fertilizer products between the Investor's associate (as defined in the Listing Rules) ("Canpotex Limited") and a member of the Group ("Sinochem Macao") will constitute continuing connected transactions for the Company.

The annual cap for such transactions for the year ending 31 December 2006 was US\$432,400,000 (approximately equivalent to HK\$ 3,372,720,000).

For detailed information, please refer to the announcement issued by the Company on 9 March 2006.

**(3) Continuing Connected Transactions between Sinochem Macao and Canpotex International Pte. Limited (on behalf of Canpotex Limited) for Importing Canadian Potash**

On 10 April 2006, Sinochem Macao entered into the MOU in respect of certain ongoing transactions with Canpotex International Pte. Limited (on behalf of Canpotex Limited) under which, subject to the terms and conditions of the MOU, Canpotex Limited will supply Canadian potash to Sinochem Macao during the three year period from 1 January 2007 to 31 December 2009. The proposed annual caps for the transactions under the MOU are HK\$4,300,000,000, HK\$5,300,000,000 and HK\$6,300,000,000 for the three years ending 31 December 2009 respectively. The transactions contemplated under the MOU constitute continuing connected transactions of the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. For the detailed information, please refer to the announcements issued by the Company respectively on 20 April 2006, 9 June 2006 and the Circular dated 25 May 2006.

**(4) Continuing Connected Transactions between Sinochem Fertilizer and Sinochem Shandong for the supply of fertilizer related products and raw materials**

On 6 June 2005, Sinochem Fertilizer and Sinochem Shandong entered into the Old Shandong Supply Agreement pursuant to which Sinochem Fertilizer shall supply potash fertilizers to Sinochem Shandong. The Old Shandong Supply Agreement constituted a continuing connected transaction of the Company under Rule 14A.16(5) of the Listing Rules subject to reporting, announcement and independent shareholders' approval requirements. These transactions and the related annual caps were disclosed in the Circular dated 13 June 2005 and the announcement of the Company dated 10 June 2005 and approved by the independent shareholders of the Company at its special general meeting ("SGM") held on 5 July 2005.

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Apart from the potash fertilizers agreed to be supplied by Sinochem Fertilizer to Sinochem Shandong under the Old Shandong Supply Agreement, Sinochem Shandong would also require Sinochem Fertilizer to supply to it other fertilizer related products and raw materials due to an expansion in its business. As disclosed in the Circular dated 13 June 2005 and the announcement of the Company dated 10 June 2005, the maximum annual caps of the purchase price payable by Sinochem Shandong to Sinochem Fertilizer under the Old Shandong Supply Agreement for the two years ending 31 December 2007 would not exceed RMB209,520,000 and RMB383,760,000 respectively. The Independent Shareholders of the Company had duly approved at the SGM on 9 June 2006 that the total annual transaction values arising from the supply of fertilizer related products and raw materials by Sinochem Fertilizer to Sinochem Shandong for the two years ending 31 December 2007 be increased to RMB424,600,000 and RMB508,600,000 respectively.

For the detailed information, please refer to the announcements issued by the Company respectively on 28 April 2006, 9 June 2006 and the Circular dated 25 May 2006.

**(5) Continuing Connected Transactions for provision of port services to Sinochem Fertilizer by Qingdao Gangxing**

Qingdao Gangxing is held as to approximately 27% by Rillfung, 13.5% by Sinochem International, 39.7% by 青島港(集團)有限公司 (Qingdao Gang (Group) Company Limited), 10% by 中農調運公司 (Zhongnong Transportation Company) and 9.8% by 中農天津公司 (Zhongnong Tianjin Company). Rillfung and Sinochem International, two subsidiaries of Sinochem Corporation, collectively hold an approximately 40.5% interest in Qingdao Gangxing. Accordingly, Qingdao Gangxing constitutes an associate of Sinochem Corporation, the ultimate controlling shareholder of the Company, and a connected person of the Company within the meaning of the Listing Rules.

On 21 April 2006, Sinochem Fertilizer and Qingdao Gangxing entered into the Qingdao Port Service Agreement pursuant to which Qingdao Gangxing will provide logistics, packaging, customs clearance, storage and other related services to Sinochem Fertilizer in relation to its fertilizers at the port of Qingdao in return for the payment of certain fees by Sinochem Fertilizer. The transactions constitute continuing connected transactions of the Company subject to the reporting, announcement requirements, but exempt from the independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Maximum annual caps for the three years ending 31 December 2008 are respectively RMB12,000,000, RMB15,000,000 and RMB18,000,000.

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

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**(6) *Connected Transactions Between (i) Beijing Sinochem Tianji Trading Co. Ltd and Tianji Sinochem for purchasing fertilizer products; (ii) Beijing Sinochem Tianji Trading Co. Ltd and Tianji Coal for purchasing fertilizer products***

Beijing Sinochem Tianji Trading Co. Ltd (“Sinochem Tianji Trading”) is an indirect non-wholly owned subsidiary of the Company, held as to 60% by Sinochem Fertilizer and 40% by Tianji Coal. Tianji Sinochem is an associate of Sinochem Corporation and a connected person of the Company within the meaning of the Listing Rules. In addition, Tianji Sinochem also constitutes an associate of Tianji Coal, and Tianji Sinochem will therefore also be a connected person of the Company within the meaning of the Listing Rules by reason of that relationship. Shortly after the establishment of Sinochem Tianji Trading, Sinochem Tianji Trading and Tianji Sinochem entered into the Tianji Gaoping Distribution Agreement pursuant to which, subject to the terms and conditions of this agreement, Sinochem Tianji Trading had been granted a right to sell the fertilizer products produced by Tianji Sinochem and the related raw materials in the PRC.

In addition, shortly after the establishment of Sinochem Tianji Trading, Sinochem Tianji Trading and Tianji Coal entered into the Tianji Coal Distribution Agreement pursuant to which, subject to the terms and conditions of this agreement, Sinochem Tianji Trading had been granted an exclusive right to sell the fertilizer products produced by Tianji Coal and the related raw materials in the Shandong and Jiangsu provinces in the PRC.

Given that the transactions under the Tianji Gaoping Distribution Agreement and Tianji Coal Distribution Agreement formed part of a series of transactions arising from the overall joint venture arrangement described above, these transactions were aggregated and treated as if they were one transaction pursuant to Rule 14A.25 of the Listing Rules. The proposed annual caps for all such transactions combined are RMB481,000,000, RMB962,000,000 and RMB1,047,000,000 for the three years ending 31 December 2008 respectively.

The above-said transactions had been duly approved by the independent Shareholders at the SGM on 9 June 2006. For the detailed information, please refer to the announcements issued by the Company respectively on 28 April 2006, 9 June 2006 and the Circular dated 25 May 2006.

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**(7) Connected Transactions between Sinochem Fertilizer and Beijing Sinochem Tianji Trading Co., Ltd for purchasing fertilizer products.**

Tianji Sinochem is held as to 40% by Sinochem Corporation and 60% by Tianji Coal. Tianji Coal, being the holding company of Tianji Sinochem, is therefore an associate of Sinochem Corporation which is a substantial shareholder of the Company. Sinochem Tianji Trading had become an indirect non-wholly owned subsidiary of the Company and is held as to 40% by Tianji Coal, an associate of a substantial shareholder of the Company and therefore a connected person at the level of the Company. Shortly after the establishment of Sinochem Tianji Trading, Sinochem Tianji Trading and Sinochem Fertilizer entered into the Beijing Procurement Agreement pursuant to which Sinochem Fertilizer will purchase fertilizer related products and raw materials from Sinochem Tianji Trading at a fair market price in the PRC.

The maximum annual caps for the three years ending 31 December 2008 are RMB481,000,000, RMB962,000,000 and RMB1,047,000,000 respectively.

The above-said transactions had been duly approved by the independent Shareholders at the SGM on 9 June 2006. For the detailed information, please refer to the announcements issued by the Company respectively on 28 April 2006, 9 June 2006 and the Circular dated 25 May 2006.



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**2. The annual caps approved for the connected transactions and the actual transacted amount in the year 2006 are set out below:**

<b>Subject to Independent Shareholders' Approval Requirements</b>		<b>Currency</b>	<b>Effective Period</b>	<b>Approved Annual Caps in 2006 <i>in thousand</i></b>	<b>The Actual Transacted Amounts in 2006 <i>in thousand</i></b>
(1)	Import Service Framework Agreement – Sinochem Corporation imported from Sinochem Macao	USD	2005 to 2007	1,442,683	788,526
(2)	Import Service Framework Agreement – Sinochem Fertilizer purchased from Sinochem Corporation	RMB	2005 to 2007	12,180,000	5,344,668
(3)	Sinochem Macao purchased from US Agri-chem	USD	2005 to 2007	69,000	0
(4)	Sinochem Fertilizer purchased from Sinochem Shandong	RMB	2005 to 2007	925,100	438,160
(5)	Sinochem Fertilizer sold to Sinochem Shandong (The transacted products and caps had been enlarged, please refer to the announcement dated 28 April 2006)	RMB	2005 to 2007	424,600	65,118
(6)	Canpotex International Pte. Limited (on behalf of Canpotex Limited) Sinochem Macao imported Canadian potash from Canpotex Limited (Please refer to the announcements on 9 March and 20 April 2006)	USD	2004 to 2006	432,400	199,149
(7)	(i) Beijing Sinochem Tianji Trading Co., Ltd purchased from Tianji Sinochem (Please refer to the announcement on 28 April 2006)	RMB	2006 to 2008	481,000	94,802
	(ii) Beijing Sinochem Tianji Trading Co., Ltd purchased from Tianji Coal (Please refer to the announcement on 28 April 2006)				
(8)	Sinochem Fertilizer purchased from Beijing Sinochem Tianji Trading Co., Ltd (Please refer to the announcement on 28 April 2006)	RMB	2006 to 2008	481,000	94,802

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<b>Exempt from Independent Shareholders' Approval Requirements but subject to Reporting and Announcement Requirements</b>		<b>Currency</b>	<b>Effective Period</b>	<b>Approved Annual Caps of Year 2006 <i>in thousand</i></b>	<b>The Actual Transacted Amounts Term Year 2006 <i>in thousand</i></b>
(9)	Qingdao Gangxing provided port services to Sinochem Fertilizer (Please refer to the announcement on 28 April 2006)	RMB	2006 to 2008	12,000	3,899
(10)	Sinochem UK provided supplier relations and logistics services to Sinochem Macao	USD	2005 to 2007	2,000	1,771
(11)	US Chem Resources, Inc. provided supplier relations and logistics services to Sinochem Macao	USD	2005 to 2007	2,000	0
(12)	Tianjin Port provided port services to Tianjin Beifang	RMB	2005 to 2007	75,000	72,566
(13)	Sinochem Zhisheng provided sales services to the Yongan Zhisheng	RMB	2005 to 2007	130,626	1,380
(14)	Yongan Zhisheng supplied raw materials to Sinochem Zhisheng	RMB	2005 to 2007	63,968	39,443
(15)	(i) Tianjin Beihai provided port services to Sinochem Fertilizer (Please refer to the announcement on 24 February 2006); and (ii) Tianjin Beihai provided packing services to Tianjin Beifang (Please refer to the announcement on 24 February 2006)	RMB	2006 to 2008	84,000	8,728



## Directors' Report

### 3. Confirmation from Independent Non-Executive Directors

The Board of Directors engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board of Directors.

In the opinion of the independent non-executive directors, the continuing connected transactions for the year ended 31 December 2006 were entered into by the Group:

- (i) in the ordinary and usual course of its business;
- (ii) either on normal commercial terms or, where there are no sufficient comparables, on terms no less favorable than the terms the Company could have obtained from an independent third party; and
- (iii) 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.

### The Contracts of Significance between the Company and the Controlling Shareholder

Sinochem Corporation is the ultimate controlling shareholder of the Company. The contracts of significance between Sinochem Corporation and the Company mainly include the agreements in relation to the connected transactions arising out of the reverse acquisition of the Fertilizer Group by the Company and the Non-competition Undertaking Sinochem Corporation has provided to the Company. With regard to the arrangements for the connected transactions and the non-competition commitment, please refer to the section headed "Information on the Fertilizer Group – Relationship between the Enlarged Group and the Sinochem Group" in the 2005 annual report and Circular dated 13 June 2005.

With regard to the arrangements for the connected transactions between controlling shareholder and its controlling stake companies and jointly controlled companies, the Company has provided detailed information in the section headed "Connected Transactions" in the Directors' Report.

## Directors' Report

### Directors

The directors during the year and up to the date of this report were as follows:

#### Executive Directors

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

Mr. Harry Yang

(appointed on 6 March 2006)

Ms. Chen Hao

(resigned on 6 March 2006)

#### Non-Executive Directors

Mr. Liu De Shu (*Chairman*)

Mr. Song Yu Qing (*Deputy Chairman*)

Dr. Chen Guo Gang

Dr. Stephen Francis Dowdle

Mr. Wade Fetzer III

(appointed on 27 March 2006)

#### Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward

Dr. Li Ka Cheung, Eric

Dr. Tang Tin Sek

### Directors' Service Contracts

The Board of Directors comprises 10 directors. Except two executive directors, none of the other directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Mr. Du Ke Ping, Executive Director and CEO of the Company, has entered into a director's service contract with the Company for a term of 3 years, with effect from 28 July 2005, subject to that (i) the service contract may be terminated prior to its expiry if either of Mr. Du or the Company serves two months' prior notice to the other in writing; (ii) the service contract may be terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the service contract. Should the Company terminate the contract prior to its expiry, Mr. Du Ke Ping is entitled to receive a cash compensation equivalent to 11 months' of his annual fixed director's fee, save for circumstances described in Item (ii) set out above.

Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, has entered into a director's service contract with the Company for a term of 3 years, with effect from 6 March 2006, subject to that (i) the service contract may be terminated prior to its expiry if either of Mr. Yang or the Company serves two months' prior notice to the other in writing; (ii) the service contract may be terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the service contract. Should the Company terminate the contract prior to its expiry, Mr. Harry Yang is entitled to receive a cash compensation equivalent to 11 months' of his annual fixed director's fee, save for circumstances described in Item (ii) set out above.

For details of remunerations including the share options granted to the directors during the year, please refer to the relevant sections of the Directors' Report and Notes 12 and 35 to the consolidated financial statements.

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### Directors' Interests in Contracts of Significance

Save for the above directors' contracts, neither the Company nor any of its subsidiaries had entered, at the end of the year or at any time during the year, into any contract of significance which is still in force, and in which a director of the Company had a material interest, whether directly or indirectly.

### Directors' Interests in Competing Business

During the year and up to the date of this report, Mr. Du Ke Ping, an executive director and chief executive officer of the Company, is also a director of Sinochem Shangdong, a 51% subsidiary of Sinochem Corporation. Mr. Harry Yang, who was appointed an executive director of the Company with effect from 6 March 2006, was also a director of US Agri-Chemicals Corporation during the year ended 31 December 2006.

As described in the circular dated 13 June 2005, Sinochem Shangdong and US Agri-Chemicals Corporation are members of the Sinochem Corporation for which the former continues to be engaged in the production of fertilizers while the latter has ceased its operations since November 2005. As at the date of this report, four out of eleven of the directors of Sinochem Shangdong are also directors or members of the senior management of the Group and the remaining directors of Sinochem Shangdong do not hold any position or assume any role in the Group. As at the date of this report, save for Mr. Du Ke Ping and Mr. Harry Yang, none of the directors of US Agri-Chemicals Corporation held any position or assume any role in the Group.

Save as disclosed, as at the date of this report, none of the directors of the Company and their respective associates has any interests 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.

### Profiles of Directors and Senior Management

Profiles of directors and senior management are set out on pages 31 to 35.

### Directors' Interests in the Shares

As at 31 December 2006, none of the directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (i) had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive were taken or deemed to have under such provisions of the SFO) or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed under the heading "The Share Option Scheme and Its Granting", 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 (including debentures) of, the Company or any other body corporate and none of the directors or 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.

For details of the share options granted to the directors in 2006, please refer to the relevant sections of the Directors' Report.

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### Substantial Shareholders' Interests in the Shares and Underlying Shares of the Company

As at 31 December 2006, the following persons (other than directors and chief executive of the Company) had interests in the shares and underlying shares of the Company which were recorded in the register of interests required to be maintained by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Long Positions of the Company's ordinary shares ( Nominal value HK\$0.1 Per Share)	
	Number of shares involved	Approximate percentage of shareholding
Sinochem Hong Kong (Group) Company Limited	4,270,453,301 (Note 1)	73.53%
Sinochem Corporation (Note 2)	4,270,453,301	73.53%
PCS (Barbados) Investment Company Limited	4,270,453,301 (Note 3)	73.53%
Potash Corporation of Saskatchewan Inc. (Note 4)	4,270,453,301	73.53%

Notes:

- (1) The number of ordinary shares consists of (a) 3,890,239,114 ordinary shares owned by Sinochem HK and (b) 580,214,187 ordinary shares owned by PCS (Barbados) Investment Company Limited, a wholly-owned subsidiary of Potash Corporation of Saskatchewan Inc. in which Sinochem HK is deemed to have an interest under the provisions of the SFO.
- (2) Sinochem Corporation is taken to be interested in the ordinary shares of the Company in which Sinochem HK, its wholly-owned subsidiary, holds an interest.
- (3) The number specified consists of (a) 1,161,589,966 ordinary shares owned by PCS (Barbados) Investment Company Limited and (b) 3,108,863,335 ordinary shares owned by Sinochem HK in which Potash Corporation of Saskatchewan Inc. is deemed to have an interest under sections 317 and 318 of the SFO.
- (4) Potash Corporation of Saskatchewan Inc. is taken to be interested in the ordinary shares of the Company in which PCS (Barbados) Investment Company Limited, its wholly-owned subsidiary, holds an interest.

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### Public Float

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

### Pre-emptive Rights

There has no requirement for pre-emptive rights set out in the Bye-laws of the Company and the laws of Bermuda which result in new shares offering made by the Company to the existing shareholders by proportion.

### The Share Option Scheme and Its Granting

The Company, pursuant to the Share Option Scheme, offered share options to the eligible participants on 23 January 2006, and the details are as follows:

Grantees	Exercisable Period (Note 3)	Exercise Price (HK\$)	Number of Share Options Awarded this Year	Forfeited	Number of Share Options Held at 31 December 2006 (Note 3)
Mr. Liu De Shu (Note 1)	23 January 2008 – 2 January 2012	1.672	2,033,000	–	2,033,000
Mr. Song YU Qing (Note 1)	23 January 2008 – 2 January 2012	1.672	1,582,000	–	1,582,000
Mr. Du Ke Ping (Note 2)	23 January 2008 – 2 January 2012	1.672	5,213,000	–	5,213,000
Dr. Chen Guo Gang (Note 1)	23 January 2008 – 2 January 2012	1.672	1,582,000	–	1,582,000
Mr. Harry Yang (Note 2)	23 January 2008 – 2 January 2012	1.672	1,582,000	–	1,582,000
Employees	23 January 2008 – 2 January 2012	1.672	18,018,000	(1,565,000)	16,453,000
			30,010,000	(1,565,000)	28,445,000

Notes:

(1) Non-executive Director of the Company

(2) Executive Director of the Company

(3) During the period between 23 January 2008 and 22 January 2009, only two-third of the options are exercisable and the remaining balance of options are exercisable from 23 January 2009 to 22 January 2012.

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### Compensation Policy

The Group's compensation policy comprises basic salary, annual bonus, benefits and long-term incentive award. The objective of the Group is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as achieving balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation varies with importance of duties, giving bonus in connection with performance directly proportional to the importance of duties, so as to ensure that the Group can recruit, retain and motivate high-caliber candidates required for the development of the Group and avoid excess reward. The Group reviews its compensation policy annually and engages professional intermediary if necessary so as to ensure the competitiveness of the compensation policy which, in turn, would support the business growth of the Group. No individual employee shall have the right to determine his/her own compensation.

### Housing Funds

The Group contributes to housing funds for its employees strictly in compliance with relevant regulations of the region where the Group's business operates.

### Auditors

PricewaterhouseCoopers acted as the auditors of the Company in respect of the financial year ended 31 December 2005. At the annual general meeting of the Company held on 9 June 2006, PricewaterhouseCoopers retired as the auditors of the Company and Deloitte Touche Tohmatsu was appointed as the new auditors of the Company.

By Order of the Board

**Liu De Shu**  
*Chairman*

Hong Kong, 12 April 2007