Notes to the Consolidated Financial Statements

1. General

The Company is a public 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 (incorporated in Hong Kong) and its ultimate holding company is Sinochem Corporation (incorporated in the PRC). The address of the registered office is Clarendon House, 2 Church Street Hamilton HM11, Bermuda. The principal place of business of the Company is Units 4601-4610, 46th Floor, Office Tower, Convention Plaza, 1 Habour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars which is the presentation currency of the Company selected to be consistent with prior years presentation. The functional currencies of the Group's subsidiaries in PRC and Macao are RMB and United State dollars, respectively.

The Company and its subsidiaries are engaged in sale and production of fertilisers and agricultural related products. The Company's principal subsidiaries are set out in note 42.

2. Reverse acquisition

Reverse acquisition

On 28 January 2005, the Company entered into an acquisition agreement with Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") in respect of the acquisition of the entire shareholding of China Fertilizer (Holdings) Company Limited ("China Fertilizer"), a wholly-owned subsidiary of Sinochem HK, for a consideration of HK$5,050 million (the "Transaction"). China Fertilizer and its subsidiaries (collectively the "Fertilizer Group") are engaged in the sale and production of fertilisers and agricultural related products in the PRC.

The consideration for the acquisition of HK$5,050 million was satisfied by the allotment and issue of 5,050 million new shares (the "Consideration Share") of the Company to Sinochem HK. Subsequent to the completion date of the Transaction, the Group is principally engaged in the sale and production of fertilisers and agricultural related products.

2. Reverse acquisition (Continued)

Reverse acquisition (Continued)

The Transaction was accounted for as a reverse acquisition under Hong Kong Financial Reporting Standard 3 "Business Combinations" since the issuance of the Consideration Shares resulted in Sinochem HK becoming the controlling shareholder of the Company. For accounting purposes, in preparing these consolidated financial statements, the Fertilizer Group was treated as the acquirer while the Company and its subsidiaries prior to the Transaction, which were mainly engaged in property investment (referred thereafter to as the "Property Group"), were deemed to have been acquired by the Fertilizer Group. The comparative figures of these consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Fertilizer Group and accordingly:

(i) the assets and liabilities of the Fertilizer Group are recognised and measured in these consolidated financial statements at their historical carrying values prior to the Transaction;

(ii) the retained profits and other equity balances of the Fertilizer Group prior to the Transaction are retained in the equity balances in these consolidated financial statements; and

(iii) the amount recognised as issued equity in these consolidated financial statements, which represents the share capital and share premium in the consolidated balance sheet of the Group, is the sum of the issued share capital of China Fertilizer (the legal subsidiary after the Transaction), the Fertilizer Group's deemed cost of acquisition of the Property Group, and the subsequent issue of new shares of the Company upon completion of the Transaction. However, the equity structure, being the number and type of shares issued, reflects the equity structure of the Company (the legal parent after the Transaction) including the new shares issued in effecting the Transaction.

The Fertilizer Group applied the purchase method to account for the acquisition of the Property Group. In applying the purchase method, the separately identifiable assets and liabilities of the Property Group were recorded in the consolidated balance sheet at their fair values at the completion date of the Transaction. In addition, goodwill arising on the acquisition of Property Group of approximately HK$356,503,000, being the excess of the cost of acquisition of the Property Group over the sum of the fair values of the separately identifiable assets less liabilities of the Property Group, was recorded. The results of the Property Group have been consolidated to the Group's consolidated financial statements since the completion date of the Transaction.

Notes to the Consolidated Financial Statements

3. Application of new and revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standards, amendments and interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

At the date of authorisation of these consolidated financial statements, the following Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC)") were issued but not yet effective. The directors of the Company are in the process of making an assessment of the impact of these standards or interpretations:

HKAS 1(Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]
HKFRS 8	Operating Segments[8]
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[2]
HK(IFRIC)-Int 8	Scope of HKFRS 2[3]
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives[4]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[5]
HK(IFRIC)-Int 11	Group and Treasury Shares Transactions[6]
HK(IFRIC)-Int 12	Service Concession Arrangements[7]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 March 2006
3 Effective for annual periods beginning on or after 1 May 2006
4 Effective for annual periods beginning on or after 1 June 2006
5 Effective for annual periods beginning on or after 1 November 2006
6 Effective for annual periods beginning on or after 1 March 2007
7 Effective for annual periods beginning on or after 1 January 2008
8 Effective for annual periods beginning on or after 1 January 2009

4. Significant accounting policies

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

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of the subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 into line with those used by other members of the Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 Business Combinations are recognised at their fair values at the acquisition date, except for non-current 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, which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on acquisitions

Goodwill arising on an acquisition of a subsidiary for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition of a subsidiary is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

4. Significant accounting policies (Continued)

Jointly controlled entities

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

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

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

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods

- wholesale sales are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

- retail sales are recognised when a group entity sells a product to the customer. Retail sales are usually in cash.

Sales of services are recognised when services are rendered.

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

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

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rates per annum:

Buildings	20-30 years
Plant, machinery and equipment	10 years
Motor vehicles	8 years
Furniture and fixtures	4 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Prepaid lease payments

Prepaid lease payments representing prepaid land costs are stated at cost less subsequent accumulated amortisation and accumulated impairment losses. Prepaid lease payments are amortised to the consolidated income statement over the term of relevant land leases.

Investment properties

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in fair value of investment properties are included in profit and loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. 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 the consolidated income statement in the year in which the asset is derecognised.

4. 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 lessor

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

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 each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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 translation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences arising from a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. 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 recognised directly in equity, in which case, the exchange differences are also recognised directly in equity.

Notes to the Consolidated Financial Statements

4. Significant accounting policies (Continued)

Foreign currencies (Continued)

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. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when 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 recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

Retirement benefit costs

Payments to the defined contribution retirement plan are charged as expenses when employees have rendered service entitling them to the contributions.

4. Significant accounting policies (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred taxation.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement 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 balance sheet date.

Deferred taxation is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries 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.

The carrying amount of deferred taxation assets is reviewed at each balance sheet date 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 taxation is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred taxation is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

4. Significant accounting policies (Continued)

Mining right

Mining right on a phosphate reserve is stated at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for mining right is provided on the unit-of-production basis over the total proven reserves of the relevant area.

Gains or losses arising from derecognition of mining right are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet 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 recognised immediately in profit or loss.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised 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. The accounting policies adopted in respect of each category of financial assets are set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivable, advance payments and other receivables, amount due from ultimate holding company, bills discounted to banks, pledged bank deposits and bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment loss. An impairment loss is recognised 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss or loans and receivables or held-to-maturity investments. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. Any impairment losses on available-for-sale financial assets are recognised in profit or loss. Impairment losses on available-for-sale equity investments will not reverse in subsequent periods.

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity

Financial liabilities and equity instruments issued by a 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 accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Convertible loan notes

Convertible loan notes issued by the Company are regarded as compound 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 for fixed number of equity instrument, the issuer recognises the compound financial instrument in the form of financial liability with embedded derivatives. 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 amortised cost of the host debt instrument.

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

In subsequent periods, the liability component of the convertible loan notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible loan notes are allocated to the liability and derivative components 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 amortised over the period of the convertible loan notes using the effective interest method.

Other financial liabilities

Other financial liabilities including trade and bills payable, receipts in advance and other payable and bank advances for discounted bills are subsequently measured at amortised 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.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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 recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to directors and employees

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to share options reserve.

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

Notes to the Consolidated Financial Statements

5. Key sources of estimation uncertainty

In the process of applying the entity's accounting policies which are described in note 4, the directors of the Company make various estimates based on experience, expectations of the future and other information. Key sources of estimation uncertainty that affect the amounts recognised in the consolidated financial statements are below:

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 at subsequent reporting dates.

The fair values of derivative financial instruments are subject to the limitation of the Black-Scholes-Merton Model which requires input of certain assumptions, including the volatility of share price. Changes in the assumptions which are subjective in nature can materially affect the fair value estimate.

Estimated impairment of goodwill

In 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. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2006, the carrying amount of goodwill is HK$356,503,000. Details of the recoverable amount calculation are disclosed in note 23.

6. Financial instruments

(a) Financial risk management objectives and policies

The Group's activities expose it to a variety of financial risks: cash flow and fair value interest rate risk, price risk and credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Cash flow and fair value interest rate risk

Cash flow interest rate risk is the risk that the cash flows of the financial instruments will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of the financial instruments will fluctuate because of changes in market interest rates. The Group's fair value interest rate risk relates primarily to convertible loan notes. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets which are mainly short-term bank deposits and interest-bearing financial liabilities which are mainly bank borrowings. Interest rate risk is managed by the director of the Company on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

Price risk

The Group is exposed to equity security price risk through its available-for-sale investments and financial derivative instruments. The directors of the Company closely observe the share price movements of those securities relating to the investments and financial derivative instruments in order to minimise the Group's exposure to the price risk.

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 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The directors of the Company considers that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-rating.

Notes to the Consolidated Financial Statements

6. Financial instruments (Continued)

(b) Fair value

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

(i) The fair value of financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions;

(ii) The fair value of derivative financial instruments is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and

(iii) The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices, as appropriate.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. Business and geographical segments

For management reporting purposes, the Group is currently organised into three main operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal operating divisions and their activities are:

Sourcing and distribution	–	sourcing and distribution of fertilisers and agricultural related products
Production	–	production and sale of fertilisers
Others	–	provision of rental services

7. Business and geographical segments (Continued)

Segment information about these business is as follows:

(a) Business segments

2006

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Eliminated HK$'000	Total HK$'000
Turnover					
External sales	19,858,824	1,267,747	–	–	21,126,571
Inter-segment sales	83,567	606,336	–	(689,903)	–
Total	19,942,391	1,874,083	–	(689,903)	21,126,571

Inter-segment sales are charged at prevailing market rates.

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Eliminated HK$'000	Total HK$'000
Results					
Segment results	1,043,148	38,190	3,080		1,084,418
Unallocated corporate income					20,773
Unallocated corporate expenses					(54,538)
Increase in fair value of investment properties	–	–	17,306		17,306
Gain on disposal of investment properties	–	–	25,466		25,466
Fair value change on derivative financial instruments					(1,865)
Share of results of jointly controlled entities	–	41,037	–		41,037
Finance costs					(128,624)
Profit before taxation					1,003,973
Income tax expense					(99,191)
Profit for the year					904,782

Notes to the Consolidated Financial Statements

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2006

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Total HK$'000
Assets				
Segment assets	7,915,188	1,539,599	10,072	9,464,859
Goodwill	320,180	36,323	–	356,503
Interests in jointly controlled entities	–	381,656	–	381,656
Unallocated corporate assets				306,057
Consolidated total assets				10,509,075
Liabilities				
Segment liabilities	2,063,329	677,923	13,181	2,754,433
Unallocated corporate liabilities				3,210,671
Consolidated total liabilities				5,965,104
Other Information				
Capital expenditure	3,314	291,009	5,949	300,272
Depreciation and amortisation	5,013	61,555	1,220	67,788
Provision for impairment of receivables	–	429	–	429

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2005

	Sourcing and distribution	Production	Others	Eliminated	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
External sales	18,286,893	961,772	–	–	19,248,665
Inter-segment sales	46,672	461,331	–	(508,003)	–
Total	18,333,565	1,423,103	–	(508,003)	19,248,665

Inter-segment sales are charged at prevailing market rates.

	Sourcing and distribution	Production	Others	Eliminated	Total
Results					
Segment results	955,306	51,866	5,705		1,012,877
Unallocated corporate expenses					(20,485)
Share of result of jointly controlled entities	–	49,941	–		49,941
Finance costs	(83,005)	(27,828)	(1,543)		(112,376)
Profit before taxation					929,957
Income tax expense					(137,533)
Profit for the year					792,424

Notes to the Consolidated Financial Statements

7. Business and geographical segments (Continued)

(a) Business segments (Continued)

2005

	Sourcing and distribution HK$'000	Production HK$'000	Others HK$'000	Total HK$'000
Assets				
Segment assets	6,920,489	1,448,033	165,893	8,534,415
Goodwill	320,180	36,323	–	356,503
Interests in jointly controlled entities	–	367,861	–	367,861
Available-for-sale investments	14,462	–	–	14,462
Unallocated corporate assets				2,094
Consolidated total assets				9,275,335
Liabilities				
Segment liabilities	4,361,796	1,089,333	91,500	5,542,629
Unallocated corporate liabilities				71,993
Consolidated total liabilities				5,614,622
Other Information				
Capital expenditure	338,289	296,482	16	634,787
Depreciation and amortisation	5,188	46,018	33	51,239
Write-back of provision of receivables	(46)	(21)	–	(67)
Write-down of inventories to net realisable value	36,626	–	–	36,626

(b) Geographical segments

In respect of geographical segments, turnover and segment results are based on the country in which the customers are located. No geographical analysis is provided as less than 10% of the Group's turnover and results are attributable to markets outside the PRC.

Total assets and capital expenditure are where the assets are located. No geographical analysis is provided as less than 10% of the Group's assets and capital expenditure are located outside the PRC.

8. Other income

	2006 HK$'000	2005 HK$'000
Revenue from agency service	**–**	7,827
Rental income	**12,560**	4,525
Dividend income from unlisted investments	**581**	2,602
Interest income from		
– loans receivable	**–**	2,207
– bank deposits	**20,192**	4,073
Government grants *(Note)*	**13,749**	23,402
Commission income	**–**	5,866
Gain on disposal of investment properties	**25,466**	–
Increase in fair value of investment properties	**17,306**	6,000
Exchange gain	**1,374**	16,768
Loss on disposal of property, plant and equipment	**–**	(338)
Sales from scrapped materials	**5,543**	–
Gain on disposal of trading securities	**9,517**	–
Compensation received	**12,832**	–
Others	**7,287**	(5,231)
	126,407	67,701

Note: This represents government grants received by the Group in accordance with CaiQi 2004 Number 35 document, pursuant to which companies in the PRC engaging in the production and import of a particular phosphate-based fertiliser are entitled to government subsidy at RMB100 per ton.

9. Finance costs

	2006 HK$'000	2005 HK$'000
Interest on bank borrowing:		
– wholly repayable within five years	**(95,980)**	(101,758)
– not wholly repayable within five years	**–**	(1,543)
Interest expense on convertible loan notes		
wholly repayable within five years	**(32,644)**	–
Bank charges and others	**–**	(9,075)
	(128,624)	(112,376)

Notes to the Consolidated Financial Statements

10. Income tax expense

	2006 HK$'000	2005 HK$'000
Current tax:		
Hong Kong Profits Tax	**(1,640)**	(1,443)
Taxation in jurisdictions other than Hong Kong	**(100,769)**	(130,137)
	(102,409)	(131,580)
Deferred taxation credit (charge) *(note 33)*	**3,218**	(5,953)
Taxation attributable to the Company and its subsidiaries	**(99,191)**	(137,533)

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year.

PRC enterprise income tax has been provided on the estimated assessable profits of subsidiaries operating in the PRC at the applicable rate of income tax of 33% (2005: 33%) Certain subsidiaries of the Group in the PRC are entitled to preferential income tax treatments which are detailed below:

(a) Sinochem Chongqing Fuling Chemical Fertilizer Company ("Sinochem Fuling"), a 60% owned subsidiary of the Group, is currently subject to a preferential PRC enterprise income tax rate of 15% granted by the local tax bureau of Chongqing City in July 2001. According to the policy for the development of the Western region of the PRC promulgated by the State Council, Sinochem Fuling is entitled to this preferential income tax treatment 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.

(b) Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited ("Sinochem Zhisheng"), a 53.19% owned subsidiary of the Group, is currently entitled to a preferential income tax treatment granted by the State Tax Bureau of Fujian province. Pursuant to such preferential income tax treatment, 40% of the amount invested in domestically made machinery by Sinochem Zhisheng in a particular year under its technological renovation project for compound fertiliser production can be applied to set off against the enterprise income tax of the preceding year.

10. Income tax expense (Continued)

No provision for income tax has been made for certain subsidiaries of the Company in jurisdiction other than Hong Kong and the PRC as those subsidiaries have profit exempted from tax for the year.

A statement of reconciliation of taxation is as follows:

	2006	2005
	HK$'000	*HK$'000*
Profit before taxation	**1,003,973**	929,957
Tax calculated at the main applicable tax rate of 33% (2005: 33%)	**(331,311)**	(306,885)
Tax effect of expenses not deductible for tax purposes	**(12,949)**	(285)
Tax effect of tax exemptions	**163,312**	7,566
Tax effect of income not taxable for tax purposes	**67,414**	150,552
Tax effect of share of results of jointly controlled entities	**13,542**	16,481
Effect of different income tax rates in other jurisdictions	**1,836**	2,178
Others	**(1,035)**	(7,140)
Income tax expense for the year	**(99,191)**	(137,533)

Notes to the Consolidated Financial Statements

11. Profit for the year

	2006	2005
	HK$'000	*HK$'000*
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**67,788**	49,564
Amortisation of prepaid lease payments	**995**	1,675
Auditors' remuneration	**5,949**	5,822
Directors' emoluments *(see note 12)*	**6,141**	1,099
Staff benefits *(Note)*	**127,618**	122,384
Total employee benefits expenses	**133,759**	123,483
Minimum lease payments made in respect of properties	**14,959**	10,882
Direct operating expenses arising from investment properties that generate rental income	**5,031**	1,130
Fair value changes in derivative financial instruments	**1,865**	–
Provision for impairment (reversal of provision for impairment) of receivables	**429**	(67)
Loss on disposal of fixed assets	**261**	338
Loss on disposal of subsidiaries	**3,473**	–
(Write-back) write-down of inventories to net realisable value	**(28,260)**	36,626

Note: Included in staff benefits are share-based payments and contributions to retirement benefit schemes for the year of HK$3,137,000 and HK$7,427,000, respectively.

12. Directors' remuneration

The emoluments paid or payable to each of the ten directors during the year ended 31 December 2006 were as follows:

	Fees HK$'000	Salaries and other benefits HK$'000	Performance related incentive payments HK$'000 (Note 1)	Retirement benefit scheme contribution HK$'000	Sub-total HK$'000	Share-based payments HK$'000 (Note 2)	Total HK$'000
Mr. Liu De Shu	–	–	–	–	–	387	387
Mr. Song Yu Qing	–	–	120	–	120	301	421
Mr. Du Ke Ping	–	1,134	652	17	1,803	994	2,797
Mr. Harry Yang	–	1,033	121	–	1,154	301	1,455
Dr. Chen Guo Gang	–	–	–	–	–	301	301
Dr. Stephen Francis Dowdle	–	–	–	–	–	–	–
Mr. Ko Ming Tung, Edward	260	–	–	–	260	–	260
Dr. Li Ka Cheung, Eric	260	–	–	–	260	–	260
Dr. Tang Tin Sek	260	–	–	–	260	–	260
Mr. Wade Fetzer III	–	–	–	–	–	–	–
	780	2,167	893	17	3,857	2,284	6,141

Notes to the Consolidated Financial Statements

12. Directors' remuneration (Continued)

The emoluments paid to directors during the year ended 31 December 2005 were as follows:

	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Performance related incentive payments *HK$'000* *(Note 1)*	Retirement benefit scheme contribution *HK$'000*	Sub-total *HK$'000*	Share-based payments *HK$'000* *(Note 2)*	Total *HK$'000*
Mr. Liu De Shu	–	–	–	–	–	–	–
Mr. Song Yu Qing	–	–	–	–	–	–	–
Mr. Du Ke Ping	–	278	293	–	571	–	571
Ms. Chen Hao	–	–	–	–	–	–	–
Dr. Chen Guo Gang	–	–	–	–	–	–	–
Dr. Stephen Francis Dowdle	–	–	–	–	–	–	–
Mr. Ko Ming Tung, Edward	176	–	–	–	176	–	176
Dr. Li Ka Cheung, Eric	176	–	–	–	176	–	176
Dr. Tang Tin Sek	176	–	–	–	176	–	176
Mr. Chiu Yu Lin, David	–	–	–	–	–	–	–
Mrs. Chu Ho Miu Hing	–	–	–	–	–	–	–
	528	278	293	–	1,099	–	1,099

Note 1: The performance related incentive payments were determined with reference to the operating results, individual performance and comparable market statistics.

Note 2: Share-based payments represent the fair value of share options granted to the relevant directors. For details of options granted, please refer to note 35 to the consolidated financial statements.

13. Employees' remuneration

Of the five individuals with the highest emoluments in the Group, two (2005: one) were directors of the Company, whose emoluments are included and disclosed in note 12 above. The emoluments of the remaining three (2005: four) individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries and other benefits	**2,795**	1,982
Performance related incentive payments	**1,405**	1,293
Retirement benefit scheme contributions	**56**	87
	4,256	3,362

Their emoluments were within the following bands:

	Number of employee(s)	
	2006	2005
HK$Nil to HK$1,000,000	**–**	4
HK$1,000,001 to HK$1,500,000	**3**	–

14. Dividend

	2006	2005
	HK$'000	*HK$'000*
Proposed final dividend of HK2.31 cents per share (2005: HK2.01 cents)	**134,437**	116,913

The final dividend of HK2.31 cents (2005: HK2.01 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

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15. Earnings per share

The calculation of the basic and diluted earnings per share attributable to the ordinary equity shareholders of the Company is based on the following data:

	2006	2005
	HK$'000	*HK$'000*
Earnings		
Earnings for the purpose of basic and diluted earnings per share	**896,246**	779,421
	'000	*'000*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**5,807,950**	5,378,099
Effect of dilutive potential shares:		
– share options	**8,050**	–
Weighted average number of shares for the purpose of diluted earnings per share	**5,816,000**	5,378,099

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes since their exercise would result in increase in profit per share.

16. Investment properties

	2006	2005
	HK$'000	HK$'000
AT FAIR VALUE		
At the beginning of the year	160,000	–
Acquisition of subsidiaries	–	154,000
Transfer from property, plant and equipment	14,226	–
Increase in fair value recognised in the consolidated income statement	17,306	6,000
Disposals	(177,000)	–
At the end of the year	14,532	160,000

The carrying amounts of investment properties situated in Hong Kong and the PRC are as follows:

	2006	2005
	HK$'000	HK$'000
Medium-term leases in Hong Kong	–	160,000
Medium-term leases in the PRC	14,532	–
	14,532	160,000

In the current year, the Group disposed of all its investment properties situated in Hong Kong with carrying amount of HK$177,000,000, which had been measured at fair value before disposal. A gain on disposal of HK$25,466,000 has been recognised in the consolidated income statement.

The Group's investment properties were valued in respect of the properties' values as at 31 December 2006 by Knight Frank Petty Limited, an independent qualified professional valuers not connected with the Group. Knight Frank Petty Limited has appropriate qualifications and experiences in the valuation of similar properties in the relevant locations. The valuation, which conforms to Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors, was arrived at by reference to market evidence of transaction prices for similar properties.

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

Notes to the Consolidated Financial Statements

17. Property, plant and equipment

	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture and fixtures	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION						
At 1 January 2005	149,623	211,660	17,895	66,705	87,021	532,904
Exchange realignment	4,191	6,102	527	1,562	2,495	14,877
Purchase of subsidiaries	–	–	–	140	–	140
Additions	–	482	12,822	5,607	236,534	255,445
Disposals	–	(323)	(1,864)	(336)	–	(2,523)
Transfer from assets under construction	72,811	116,636	–	122	(189,569)	–
At 31 December 2005	226,625	334,557	29,380	73,800	136,481	800,843
Exchange realignment	9,175	13,262	1,029	2,948	6,169	32,583
Additions	2,012	3,298	2,315	5,936	286,711	300,272
Transfers from construction in progress	55,242	72,791	–	19,746	(147,779)	–
Transfer to investment properties	(18,672)	–	–	–	–	(18,672)
Transfer to prepaid lease payment	–	–	–	–	(65,064)	(65,064)
Disposals/write-off	–	(1,336)	(910)	(2,955)	(7,228)	(12,429)
At 31 December 2006	**274,382**	**422,572**	**31,814**	**99,475**	**209,290**	**1,037,533**
DEPRECIATION AND AMORTISATION						
At 1 January 2005	5,593	9,344	4,509	5,464	–	24,910
Exchange realignment	236	1,243	114	166	–	1,759
Provided for the year	10,296	32,790	2,432	4,046	–	49,564
Eliminated on disposals	–	(320)	(1,260)	(320)	–	(1,900)
At December 31, 2005	16,125	43,057	5,795	9,356	–	74,333
Exchange realignment	652	1,972	228	901	–	3,753
Provided for the year	3,424	26,094	3,814	34,456	–	67,788
Transfer to investment properties	(4,446)	–	–	–	–	(4,446)
Eliminated on disposals/write-off	–	(1,229)	(697)	(2,955)	–	(4,881)
At 31 December 2006	**15,755**	**69,894**	**9,140**	**41,758**	**–**	**136,547**
CARRYING VALUES						
At 31 December 2006	**258,627**	**352,678**	**22,674**	**57,717**	**209,290**	**900,986**
At 31 December 2005	210,500	291,500	23,585	64,444	136,481	726,510

18. Prepaid lease payments

	2006	2005
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
Long lease	**75,145**	41,924
Medium-term lease	**33,854**	–
	108,999	41,924
Analysis for reporting purposes as:		
Current asset	**2,233**	–
Non-current asset	**106,766**	41,924
	108,999	41,924

19. Mining right

The mining right on a phosphate reserve is held by a 60% owned subsidiary which was acquired by the Group on 27 October 2005. The mining right is stated at cost which, in the opinion of directors, represents a close approximation to its fair value as at the date of acquisition based on a valuation performed by an independent professionally qualified valuer, China Assets Appraisal Co., Ltd..

The mining right is due in 2011 and is renewable at minimal cost.

No amortisation was charged during the year as the mining process has not started.

Notes to the Consolidated Financial Statements

20. Interests in jointly controlled entities

	2006 HK$'000	2005 HK$'000
Share of net assets	**381,656**	367,861

Movements of share of net assets of jointly controlled entities are as follows:

	2006 HK$'000	2005 HK$'000
At 1 January	**367,861**	351,698
Additions	**2,927**	–
Share of results before income tax	**43,726**	54,967
Share of income tax expense	**(2,689)**	(5,026)
Dividends paid	**(43,134)**	(41,782)
Exchange differences	**12,965**	8,004
At 31 December	**381,656**	367,861

20. Interests in jointly controlled entities (Continued)

The summary financial information of the Group's jointly controlled entities is as follows:

	2006 HK$'000	2005 HK$'000
Financial position		
Non-current assets	**2,487,720**	1,243,624
Current assets	**1,107,056**	1,064,888
Non-current liabilities	**(1,099,831)**	(504,662)
Current liabilities	**(1,288,005)**	(607,505)
Net assets	**1,206,940**	1,196,345
The Group's share of net assets of jointly controlled entities	**381,656**	367,861
Result for the year		
Revenue	**2,372,920**	1,283,982
Profit for the year	**128,658**	184,477
The Group's share of results of jointly controlled entities	**41,037**	49,941

Details of the principal jointly controlled entities are set out in note 43 to the consolidated financial statements.

21. Available-for-sale investments

	2006 HK$'000	2005 HK$'000
Available-for-sale investments at 31 December, comprise:		
Listed equity securities in the PRC	**281,472**	–
Unlisted equity securities in the PRC	**10,232**	19,933
Less: impairment losses	**(1,285)**	(5,471)
	290,419	14,462

At the balance sheet date, all listed available-for-sale investments are stated at fair value which have been determined by reference to the market price and the discount rate in connection with the lock-up period. The discount rate ranges from 10.60% to 18.51%.

The unlisted equity securities, representing investments in private entities are measured at cost less impairment at each balance sheet date 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.

Notes to the Consolidated Financial Statements

22. Goodwill

	HK$'000
At 1 January 2005	–
Additions	356,503
At 31 December 2005 and 2006	356,503

Particulars regarding impairment testing on goodwill are set out in note 23.

23. Impairment testing on goodwill with indefinite useful lives

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill has been allocated to the cash generating units ("CGUs") of the related segments as follows.

	2006	2005
	HK$'000	*HK$'000*
Sourcing and distribution	**320,180**	320,180
Production	**36,323**	36,323
	356,503	356,503

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions such as discount rates and growth rates. The directors of the Company estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific relating to the CGUs. The growth rates are based on GDP growth of the PRC economy.

At the balance sheet date, the Group performed impairment review for goodwill based on cash flow forecasts derived from financial budgets approved by directors and a discount rate of 10.05%. Both sets of cash flows beyond the year 2007 are extrapolated using a declining average growth rate of 10.50% for the first eight years and a steady growth rate of 6.30% for the following 6 years. The value in use calculated by using the discount rate is higher than the carrying amounts of CGUs, accordingly, there are no impairments of any of the CGUs containing goodwill with indefinite useful lives.

24. Inventories

	2006	2005
	HK$'000	*HK$'000*
Fertiliser merchandise and finished goods	**4,091,594**	4,679,235
Raw materials	**252,689**	96,768
Work in progress	**15,071**	18,330
Production supplies	**5,211**	3,816
	4,364,565	4,798,149

25. Trade and bills receivable

The Group allows its trade customers with credit periods normally within 120 days. The following is an analysis of trade and bills receivable at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**1,264,883**	806,013
91 days to 180 days	**1,463**	39,046
181 days to 360 days	**5,113**	373
Over 360 days	**898**	1,278
	1,272,357	846,710

26. Amount due from ultimate holding company

The amount represents trade balance due from ultimate holding company. The Group allows 120 days credit period to its ultimate holding company. At 31 December 2006, the balance is aged within 90 days.

27. Bills discounted to banks

The Group discounted certain bills to banks with recourse in exchange for cash. The transactions have been accounted for as collateralised bank advances for the year ended 31 December 2006. The bills discounted to banks and remained outstanding as at 31 December 2006 amounted to HK$1,364,806,000 (2005: HK$1,417,893,000).

Notes to the Consolidated Financial Statements

28. Pledged bank deposits/bank balances and cash

Pledged bank deposits

The pledged deposits have been placed in designated banks as part of the securities provided for bill facilities granted to the Group.

Bank balance and cash

Bank balances, deposits and cash comprise cash held by the Group and short-term bank deposits with originally maturity of three months or less, and carry interests ranging from 0.72% to 3.95% (2005: 0.70% to 3.15%) 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 entity to which they relate.

	2006	2005
	HK$'000	*HK$'000*
United State dollars	**4,313**	4,938

29. Trade and bills payable

The following is an analysis of trade and bills payable at the balance sheet date:

	2006	2005
	HK$'000	*HK$'000*
Within 90 days	**1,803,563**	2,244,443
91 days to 180 days	**1,427**	197,249
181 days to 360 days	**2,359**	6,022
Over 360 days	**7,907**	598
	1,815,256	2,448,312

30. Convertible loan notes/derivative financial liabilities

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 shall have been called for redemption before the 7 August 2011 (maturity date), then up to the close of business on a date no later than seven business days prior to the date fixed for redemption at a conversion price of HK$3.74 per ordinary share. 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.

30. Convertible loan notes/derivative financial liabilities (Continued)

At any time after 7 August 2009 and prior to the maturity date, the Company shall have 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 shall 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.

The convertible loan notes contain liability component stated at amortised cost and conversion option, holder redemption option and issuer 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 are apportioned between the liability component and derivatives component based on their relative fair values at the date of issue. An issue cost of HK$27,513,000 relating to the 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%.

The movement of the liability and derivative components of the convertible loan notes for the year is set out as below:

	Liability component *HK$'000*	**Derivatives component** *HK$'000*
Amount initially recognised	1,187,763	84,592
Interest charge	32,644	–
Change in fair value	–	1,865
At 31 December 2006	**1,220,407**	**86,457**
Fair value at 31 December 2006	**1,282,664**	**86,457**

Notes to the Consolidated Financial Statements

31. Borrowings

	2006 HK$'000	2005 HK$'000
Bank loans, secured	**53,747**	126,744
Bank loans, guaranteed	**19,906**	13,044
Bank loans, unsecured	**388,617**	1,119,352
	462,270	1,259,140
Carrying amount repayable:		
Within one year	**99,118**	1,025,052
In more than one year, but not more than two years	**94,415**	66,491
In more than two years, but not more than five years	**268,737**	127,700
In more than five years	**–**	39,897
	462,270	1,259,140
Less: Amounts due within one year shown under current liabilities	**(99,118)**	(1,025,052)
Amounts due after one year	**363,152**	234,088

An analysis of the carrying amounts of the Group's total borrowings by type is as follows:

	2006 HK$'000	2005 HK$'000
Variable-rate borrowings	**256,238**	383,153
Fixed-rate borrowings	**206,032**	875,987
Total borrowings	**462,270**	1,259,140

31. Borrowings (Continued)

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2006	2005
Variable-rate borrowings	**0%-5.56%**	3.94%-4.68%
Fixed rate borrowings	**5.56%**	4.68%

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	2006	2005
	HK$'000	*HK$'000*
Hong Kong dollars	**4,850**	80,263

At 31 December 2006, bank borrowings amounting to HK$19,906,000 (2005: HK$13,044,000) were guaranteed by a related company of a joint venture partner.

At 31 December 2006, certain property, plant and equipment, prepaid lease payments with carrying values of HK$208,805,000 (2005: HK$252,375,000) were pledged to secured banking facilities granted to the Group.

32. Other financial assets/liabilities

Other financial assets at 31 December 2006 include advance payments and other receivables. Other financial liabilities at 31 December 2006 include receipts in advance and other payables and bank advances for discount bills.

33. Deferred Taxation

The following are the deferred taxation liabilities recognised and movements thereon during the current and prior reporting years:

	Undistributed profits of a subsidiary and jointly controlled entities	Revaluation of investment properties	Others	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	11,451	–	1,689	13,140
Acquisition of subsidiaries	–	10,774	354	11,128
Charge to income for the year	1,663	1,050	11,092	13,805
Exchange differences	276	–	165	441
At 31 December 2005	13,390	11,824	13,300	38,514
Credit to income for the year	–	–	(13,495)	(13,495)
Charge to equity for the year	–	–	13,235	13,235
Release upon disposal	–	(11,824)	–	(11,824)
Exchange differences	474	–	195	669
At 31 December 2006	**13,864**	**–**	**13,235**	**27,099**

33. Deferred Taxation (Continued)

The following are the deferred taxation assets recognised and movements thereon during the current and prior reporting years:

	Unrealised profits in inventories	Allowance for inventories	Impairment of property, plant and equipment	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005	(8,986)	–	(2,048)	(11,034)
(Credit) charge to income for the year	4,236	(12,088)	–	(7,852)
Exchange differences	(153)	(138)	(46)	(337)
At 31 December 2005	(4,903)	(12,226)	(2,094)	(19,223)
(Credit) charge to income for the year	(375)	9,437	1,215	10,277
Exchange differences	(182)	(244)	(50)	(476)
At 31 December 2006	**(5,460)**	**(3,033)**	**(929)**	**(9,422)**

For the purpose of balance sheet presentation, certain deferred taxation assets and liabilities have been offset. The following is the analysis of the deferred taxation balances for financial reporting purposes:

	2006	2005
	HK$'000	*HK$'000*
Deferred taxation assets	**(9,422)**	(2,094)
Deferred taxation liabilities	**27,099**	21,238
	17,677	19,144

Deferred taxation assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group did not recognise deferred taxation assets in respect of losses amounting to HK$409,234,000 (2005: HK$540,744,000) that can be carried forward against future taxable income.

Notes to the Consolidated Financial Statements

34. Issued equity

	Number of shares *(in thousands)*	*HK$'000*
At 31 December 2005 and 31 December 2006	5,807,950	767,766

Due to the application of reverse acquisition basis of accounting, the amount of issued equity of the Group as at 31 December 2005, which included share capital and share premium in the consolidated balance sheet, represented the amount of issued equity of the legal subsidiary, China Fertilizer, 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 of HK$482,325,000 during the year ended 31 December 2005, after deducting the costs of issuing the new shares.

35. Share-based payment transactions

Equity-settled share option scheme

The share option scheme adopted by the Company on 11 September 1996 ("Old Share Option Scheme") was terminated on 26 August 2002.

A new share option scheme ("New Share Option Scheme") was adopted pursuant to a resolution passed on 26 August 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 25 August 2012. Under New Share Option Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under New Share Option Scheme was 28,445,000 (2005: nil), representing 0.49% (2005: nil) of the shares of the Company in issue as at the date of this report. The total number of option shares available for granting under the New Share Option Scheme at the date of this report is 580,794,982. The total number of shares in respect of which options may be granted under New Share Option Scheme 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 independent non-executive directors, 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 with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

The option price is HK$1 which is payable on acceptance of an option. No more than two-thirds of the options are exercisable from 23 January 2008 to 22 January 2009, and the remaining options are exercisable at any time from 23 January 2009 to 22 January 2012. The exercise price 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 shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Notes to the Consolidated Financial Statements

35. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

Details of the share option scheme and its granting are as follows:

Grantees	Date of grant	Exercisable period	Exercise Price	Number of options
			HK$	
	(Note 1)		*(Note 4)*	
Mr. LIU De Shu *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	2,033,000
Mr. SONG Yu Qing *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
Mr. DU Ke Ping *(Note 3)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	5,213,000
Mr. CHEN Guo Gang *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
Mr. Harry YANG *(Note 3)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,582,000
Employees	23 January 2006	23 January 2008 to 22 January 2012	1.672	16,453,000

Notes:

(1) No more than two-thirds of the options are exercisable from 23 January 2008 to 22 January 2009, and the remaining options are exercisable from 23 January 2009 to 22 January 2012.

(2) Non-Executive Director of the Company.

(3) Executive Director of the Company.

(4) The closing price per share immediately before 23 January 2006, being the date of grant, was HK$1.64.

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

Option type	Outstanding at 1/1/2006	Granted during the year	Forfeited during the year	Outstanding at 31/12/2006
2006	**–**	**30,010,000**	**(1,565,000)**	**28,445,000**
Exercisable at the end of the year				**–**
Weighted average exercise price	**–**	**1.672**	**1.672**	**1.672**

35. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

Options were granted on 23 January 2006 and their estimated fair values are HK$14,662,000.

The following table discloses movements of the Company's share options held by directors and employees during 2005:

Option type	Outstanding at 1/4/2005	Granted during the year	Lapsed during the year	Outstanding at 31/12/2005
2005 *(Note)*	2,000,000	–	(2,000,000)	–
Weighted average exercise price *(Note)*	0.378	–	–	–

Note: On 5 July 2005, the nominal value of the Company's ordinary shares of HK$0.10 each was reduced to HK$0.01 each ("Capital Reduction"). Every 10 ordinary shares of HK$0.01 each of the Company was then consolidated into one ordinary share of HK$0.10 each ("Share Consolidation"). The effect of Capital Reduction and Share Consolidation had not been taken into account for 2005 Company's share option held by directors and employees.

These fair values were calculated using the binomial option pricing model. The inputs into the model were as follows:

	2006
Weighted average share price	HK$1.672
Exercise price	HK$1.672
Expected volatility	33.99%
Expected life	3.67 – 4.17 years
Risk-free rate *(Note 1)*	3.94% and 4.02%
Expected dividend yield	0.97%

Note 1: Risk free rates 3.94% and 4.02% are used in the computation of the fair value of options exercisable in two years and three years, respectively.

Expected volatility was determined by using the historical volatility of four peer companies' share price over the previous three years. The expected life used in the model has been adjusted, based on directors' best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$5,421,000 for the year ended 31 December 2006 (2005: Nil) in relation to share options granted by the Company.

Notes to the Consolidated Financial Statements

36. Disposal of subsidiaries

During the year, the Company disposed of certain subsidiaries to independent third parties.

The net assets of these subsidiaries at the date of disposal were as follows:

	HK$'000
Net assets disposed of:	
Property, plant and equipment	3,735
Inventories	24,221
Trade and other receivables	14,030
Dividend receivable	706
Bank balances and cash	2,022
Trade and other payables	(25,048)
Borrowings	(8,261)
Net assets disposed of	11,405
Minority interests	(3,826)
Loss on disposal of subsidiaries	(3,473)
	4,106
Satisfied by:	
Cash	449
Deferred consideration	3,657
	4,106
Net cash outflow arising on disposal:	
Cash considerations received	449
Bank balances and cash disposed of	(2,022)
	(1,573)

The subsidiaries disposed of in the current year did not contribute significantly to the Group's cash flows or operating results.

37. Business combinations

(a) As mentioned in note 2 above, in July 2005, the Company issued 5,050,000,000 ordinary shares in exchange for the entire shareholdings in the Fertilizer Group. Pursuant to HKFRS 3 and as disclosed in note 2, the Fertilizer Group is deemed to be the effective acquirer of the Property Group, reverse acquisition accounting is adopted to account for the Transaction, and accordingly these consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Fertilizer Group, and the results of the Property Group have been consolidated since the date of completion of the Transaction.

Details of the net liabilities of the Property Group assumed and goodwill arising from the Transaction are as follows:

	HK$'000
Purchase consideration:	
– Consideration deemed to have been paid by the Fertilizer Group *(Note (i))*	285,363
– Direct costs relating to the acquisition	7,660
Total purchase consideration	293,023
Less: Fair value of net liabilities of the Property Group assumed – *(Note (ii))*	(63,480)
Goodwill	356,503

Notes:

(i) The fair value of the consideration deemed to have been paid by the Fertilizer Group was based on the fair value of the equity instruments deemed to have been issued by the Fertilizer Group for the acquisition of the Property Group.

Notes to the Consolidated Financial Statements

37. Business combinations (Continued)

(ii) The separately identifiable assets and liabilities of the Property Group as at the completion date of the Transaction were as follows:

	Fair value *HK$'000*	Acquiree's carrying amount *HK$'000*
Property, plant and equipment	140	140
Investment properties	154,000	154,000
Trade receivables	1,066	1,066
Other receivables	15,410	15,410
Cash and cash equivalents	1,807	1,807
Other payables	(20,345)	(20,345)
Amount due to a director	(3,271)	(3,271)
Amount due to a shareholder	(116,941)	(116,941)
Borrowings	(84,218)	(84,218)
Deferred income tax liabilities	(11,128)	(354)
Net liabilities assumed	(63,480)	(52,706)

	HK$'000
Direct costs relating to the acquisition	(7,660)
Cash and cash equivalents in subsidiaries acquired	1,807
Cash outflow on the acquisition	(5,853)

The Property Group contributed turnover of HK$4,525,000 and net profit of HK$3,781,000 to the Group for the period from 28 July 2005 (completion date of the Transaction) to 31 December 2005. If the Transaction had occurred on 1 April 2005, the turnover and net profit contributed by the Property Group would have been HK$7,980,000 and HK$5,176,000 respectively.

As extracted from the consolidated financial statements of the Company for the year ended 31 March 2005, the turnover and net profit of the Company and its subsidiaries, which comprise the companies of the Property Group, for the year ended 31 March 2005 were HK$9,951,000 and HK$40,520,000 respectively.

(b) On 27 October 2005, the Group acquired a 60% of equity interest in Guizhou Kaiyang Qinglongjiang Company Limited ("Qinglongjiang") at a purchase consideration of HK$13,703,000, of which HK$9,592,000 was paid before the year end. Qinglongjiang is principally engaged in phosphate mining in the PRC. At the date of acquisition, the only major asset of Qinglongjiang is a mining right. The directors of the Company are of the view that the cost of the mining right to the Group amounted to HK$22,839,000 *(Note 19)* (60% of which amounted to HK$13,703,000), which approximates the fair value of the mining right as at the date of acquisition. Accordingly, there is no goodwill resulted from the acquisition.

The acquired subsidiary made no significant contribution to the turnover and profit of the Group from the date of acquisition to 31 December 2005.

38. Contingent liabilities

At 31 December 2006, the Group had no material contingent liabilities (2005: Nil)

39. Commitments

	2006	2005
	HK$'000	*HK$'000*
Assets under construction		
Contracted but not provided for	**187,404**	71,922
Authorised but not contracted for	**21,655**	8,459
	209,059	80,381
Investment in a jointly controlled entity, Yunnan Three-Circles Sinochem Fertilizer Company Limited	**139,345**	134,577
	348,404	214,958

40. Operating lease commitments

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**651**	8,474
In the second to fifth year	**55**	3,278
	706	11,752

The Group as lessee

The Group leases various retail outlets, offices, warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**15,132**	8,049
In the second to fifth year	**7,488**	4,205
Other five years	**6,741**	7,509
	29,361	19,763

Notes to the Consolidated Financial Statements

41. Related party transactions

The related parties that had transactions with the Group during the year were as follows:

Companies beneficially owned by ultimate holding company

U.S. Chem Resources Inc.
(美國化工資源公司)

US Agri-Chemicals Corporation
(美國農化公司)

Sinochem Guangdong Import & Export Corp. ("Sinochem Guangdong")
(中化廣東進出口公司)

Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong")
(中化山東肥業有限公司)

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

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

Jointly controlled entities

Hubei Sinochem & Orient Fertilizer Company Limited ("Sinochem Orient")
(湖北中化東方肥料有限公司)

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

Guiyang Sinochem Kailin Fertilizer Company Limited ("Sinochem Kailin")
(貴陽中化開磷化肥有限公司)

Beijing Sinochem Tianji Trading Co., Ltd.
(北京中化天脊貿易有限公司)

Joint venture partners

Guizhou Kailin (Group) Co., Ltd. (Joint venture partner of Sinochem Kailin)
(貴州開磷(集團)有限責任公司)

Yongan Zhisheng Chemical Company Limited
("Yongan Zhisheng", joint venture partner of Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited)
(永安智勝化工有限公司)

An associate of a substantial shareholder of the Company

Canpotex International Pte. Limited ("Canpotex Ltd")

41. Related party transactions (Continued)

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

	2006	2005
	HK$'000	*HK$'000*
Sales of fertilisers to:		
Sinochem Corporation	**1,598,714**	917,119
Sinochem Guangdong	**–**	31,247
Sinochem Orient	**11,912**	16,553
Sinochem Shandong	**63,543**	46,710
Guizhou Kailin Fertilizer Co Ltd	**72,881**	–
Purchases of fertilisers from:		
Sinochem Corporation	**594,832**	401,903
Sinochem Guangdong	**–**	225,635
Sinochem Shandong	**427,557**	224,362
Sinochem (United Kingdom) Limited	**–**	407,328
U.S. Chem Resources Inc.	**–**	27,083
Sinochem Orient	**39,965**	58,724
Sinochem Kailin	**141,351**	143,281
Sinochem Cargill	**475,582**	479,352
Qinghai Salt Lake	**849,277**	740,494
Beijing Sinochem Tianji Trading Co., Ltd.	**92,509**	–
Import service fee to:		
Sinochem Corporation	**268**	310
US Agri-Chemicals Corporation	**–**	241
Sinochem (United Kingdom) Limited	**13,756**	10,225
Interest income on loans receivable from Sinochem Corporation	**–**	2,207
Purchase of raw materials from Yongan Zhisheng	**38,489**	47,692

Notes to the Consolidated Financial Statements

41. Related party transactions (Continued)

(b) At the balance sheet date, the Group had the following significant balances with its related parties under trade and bills receivable, advance payments and other receivables, trade and bills payable and receipts in advance and other payables:

	2006 **HK$'000**	2005 *HK$'000*
Trade receivables:		
Sinochem (United Kingdom) Limited	**–**	19,446
Advance payments to suppliers:		
Sinochem Cargill	**15,525**	13,635
Sinochem Kailin	**16,614**	9,739
Qinghai Salt Lake	**133,672**	1,209
Sinochem Orient	**8,479**	–
Beijing Sinochem Tianji Trading Co., Ltd	**71,862**	–
Other receivables:		
Canpotex Ltd	**18,285**	–
Trade payables:		
Sinochem Corporation	**–**	5,410
Yongan Zhisheng	**10,451**	3,878
Sinochem Shandong	**25,331**	6,214
Canpotex Ltd	**781,532**	–
Receipts in advance:		
Sinochem Shandong	**3,760**	12
Sinochem Corporation	**–**	2,302
Other payables:		
Sinochem (United Kingdom) Limited	**–**	10,342

The key management personnel includes solely the directors of the Company and the compensation paid to them is disclosed in note 12.

41. Related party transactions (Continued)

(c) At the balance sheet date, the Group had the following significant balances with other state-owned enterprises as follows:

	2006	2005
	HK$'000	*HK$'000*
Trade and other receivables	**639,588**	289,436
Cash and cash equivalents	**55,121**	49,203
Trade and bills payable	**157,634**	126,781
Receipts in advance and other payables	**46,872**	28,616
Bank advances for discounted bills	**242,906**	296,845
Borrowings	**284,649**	626,432

(d) During the year, the Group had the following significant transactions with other state-owned enterprises as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of fertilizers	**2,171,816**	1,795,672
Purchase of fertilizers	**5,438,395**	2,977,850
Interest income from bank deposits	**1,580**	1,932
Bank charges	**2,432**	2,227
Interest expenses on bank loans	**72,244**	66,179

Notes to the Consolidated Financial Statements

42. Principal subsidiaries

Particulars of the principal subsidiaries and jointly controlled entities of the Group as at 31 December 2006 are as follows:

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership interest held by the Company	Principal activities
Directly held:				
China Fertilizer (Holdings) Company Limited	BVI	US$10,002	100%	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US$1,000,000	100%	Investment holding
Indirectly held:				
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US$10,002	100%	Investment holding
Sinochem Fertilizer Company Limited (中化化肥有限公司)	PRC	RMB1,800,000,000	100%	Fertiliser trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	HK$15,000,000	100%	Fertiliser trading
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務有限公司)	Macao	MOP100,000	100%	Fertiliser trading
Suifenhe Xinkaiyuan Trading Company Limited (綏芬河新凱源貿易有限公司)	PRC	RMB5,000,000	100%	Fertiliser trading
Sinochem Chemical Fertilizer Erlianhot Company (二連浩特中化化肥有限責任公司)	PRC	RMB5,000,000	100%	Fertiliser trading
Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited (福建中化智勝化肥有限公司)	PRC	RMB47,000,000	53.19%	Sales and manufacturing of fertilisers
Sinochem Chongqing Fuling Chemical Fertilizer Company Limited (中化重慶涪陵化工有限公司)	PRC	RMB80,000,000	60%	Sales and manufacturing of fertilisers

42. Principal subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership interest held by the Company	Principal activities
Indirectly held: (Continued)				
Sinochem Yantai Crop Nutrition Co., Ltd (煙臺中化作物營養有限公司)	PRC	US$241,000	51%	Sales and manufacturing of fertilisers
Manzhouli Kaiming Fertilizer Company Limited (滿洲里凱明化肥有限公司)	PRC	RMB5,000,000	100%	Fertiliser trading
Guizhou Kaiyang Qinglongjiang Company Limited (貴州開陽青龍江有限公司)	PRC	RMB500,000	60%	Phosphate mining
Fine Straight Investments Limited (快速投資有限公司)	Hong Kong	Ordinary: HK$2 Deferred: HK$10,000*	100%	Property investment
Sanmark Investments Limited (盛茂投資有限公司)	Hong Kong	Ordinary: HK$200 Deferred: HK$82*	100%	Property investment

* The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distributions on winding up.

Notes to the Consolidated Financial Statements

43. Principal jointly controlled entities

Name of jointly controlled entity	Place of incorporation/ operation	Nominal value of issued capital	Proportion ownership interest held by the Company *(Note)*	Principal activities
Indirectly held:				
Hubei Sinochem & Orient Fertilizer Company Limited (湖北中化東方肥料有限公司)	PRC	RMB10,000,000	55%	Sales and manufacturing of fertilizers
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited (天津北方化肥物流配送有限公司)	PRC	RMB3,000,000	60%	Fertiliser logistics
Guiyang Sinochem Kailin Fertilizer Company Limited (貴陽中化開磷化肥有限公司)	PRC	RMB365,850,000	41%	Sales and manufacturing of fertilisers
Yunnan Three Circles-Sinochem-Cargill Fertilizer Company Limited (雲南三環中化嘉吉化肥有限公司)	PRC	US$29,800,000	25%	Sales and manufacturing of fertilisers
Yunnan Three-Circles Sinochem Fertilizer Company Limited (雲南三環中化化肥有限公司)	PRC	RMB250,000,000	40%	Sales and manufacturing of fertilisers
Tianji Sinochem Trading Co Ltd (北京中化天脊貿易有限公司)	PRC	RMB5,000,000	60%	Fertiliser trading

Note: The Group has joint control over the economic activities of the entities with other joint venture parties.