



中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 297



Nurturing China's Agriculture Sector
與中國現代農業共同成長

SINOFERT

Interim Report 2007

Contents

- 1** Corporate Information
- 2** Chairman's Statement
- 4** Management's Review and Prospect
- 8** Chronicle of Events
- 9** Management's Discussion and Analysis
- 19** Independent Review Report
- Condensed Consolidated Financial Statement
- 21** Condensed Consolidated Income Statement
- 22** Condensed Consolidated Balance Sheet
- 24** Condensed Consolidated Statement of Changes in Equity
- 25** Condensed Consolidated Cash Flow Statement
- 26** Notes to the Condensed Financial Statements
- 39** Other Information



Corporate Information

Non-Executive Directors

Mr. LIU De Shu (Chairman)
Mr. SONG Yu Qing (Deputy Chairman)

Executive Directors

Mr. DU Ke Ping (Chief Executive Officer)
Mr. Harry YANG

Non-Executive Directors

Dr. CHEN Guo Gang
Dr. Stephen Francis DOWDLE
Mr. Wade FETZER III

Independent Non-Executive Directors

Mr. KO Ming Tung, Edward
Mr. TSE Hau Yin, Aloysius
Dr. TANG Tin Sek

Audit Committee

Mr. TSE Hau Yin, Aloysius (Chairman)
Mr. KO Ming Tung, Edward
Dr. TANG Tin Sek

Remuneration Committee

Dr. TANG Tin Sek (Chairman)
Mr. KO Ming Tung, Edward
Mr. TSE Hau Yin, Aloysius
Dr. Stephen Francis DOWDLE
Ms. CHEN Yi Qing

Nomination Committee

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

Chief Financial Officer

Mr. ZHANG Bao Hong

Qualified Accountant

Ms. TSE Yin Hung, Bonnie

Company Secretary

Mr. Navin AGGARWAL, Solicitor

Legal Advisers

Allen & Overy
9th Floor, Three Exchange Square
Central
Hong Kong

Kirkpatrick & Lockhart Preston Gates Ellis LLP
35th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

Auditors

Deloitte Touche Tohmatsu
35th Floor, One Pacific Place
88 Queensway
Hong Kong

Investor Relations

Telephone:
Beijing: (0086)(10) 8807 9421
Hong Kong: (00852) 3656 1588

Fax:
Beijing: (0086)(10) 8807 9627
Hong Kong: (00852) 2850 7229

Address:
5th Floor, Sinochem Tower
A2 Fuxingmenwai Dajie
Beijing 100045
China

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

Company Website

www.sinofert.com.hk

Stock Code

297

Principal Office

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

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Share Registrar and Transfer Office Hong Kong

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

Bermuda

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Principal Bankers

ING Bank
Bank of Tokyo-Mitsubishi
ABN AMRO Bank
Bank of China
Bank of Communications

Chairman's Statement

Dear shareholders,

I am pleased to present to you the interim results of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007 for your review.

During first half 2007, the Chinese government strengthened macro-control efforts to prevent fairly fast economic growth from overheating, and yet continued its uncompromised policies to support the agricultural sector, the rural areas and the farmers. The production enthusiasm of the farmers was further aroused, the grain planting acreage was increased, and fertilizer demand grew at a steady pace. All this has provided favorable opportunities for the development of the Group. By fully leveraging on its cutting edges in resources, distribution network, capital operations, brand image, services and management, the Group continued to push forward the strategy of "centering on marketing and distribution and expanding into both upstream and downstream of the industry chain". As a result, the Group successfully surmounted a series of adversary factors, such as rising energy and raw material cost, soaring ocean freight and falling prices of some fertilizer products, and achieved a fast growth in business performance. For the six months ended 30 June 2007, the Group realized a total sales volume of 7.90 million tons, up by 29% over the corresponding period of 2006; turnover reached HK\$14.34 billion, up by 39% over the corresponding period of 2006; net profit excluding HK\$79 million of changes in fair value of derivative component of the convertible loan notes was HK\$610 million, up by 31% over the corresponding period of 2006; and earnings per share (EPS) was 10.49 HK cents, up by 31% over the corresponding period of 2006. Such remarkable results represented a historical high year on year in the history of the Group.

Working to maximize shareholders' value, the Board of Directors has constantly improved corporate governance and endeavored to bring into place a highly effective, standardized and rational corporate governance mechanism for scientific decision making. In compliance with the provisions set out in Appendix 14 to the Code on Corporate Governance Practices, the Company held two regular meetings of the Board of Directors during January – June 2007, at which the 2006 annual report, the dividend policy, corporate development strategy and other issues were deliberated and approved. Meanwhile, through irregular meetings, the Board of Directors also examined other important matters such as strategic investments and connected transactions.



In 2007, Mr. Li Ka Cheung, Eric retired by rotation as an independent non-executive director of the Company. Meanwhile, Mr. Tse Hau Yin, Aloysius was appointed as an independent non-executive director of the Company at the shareholders annual general meeting held on 28 June 2007. On behalf of the Board of Directors, I would like to take this opportunity to express our sincere appreciation to Mr. Li for his valuable contributions to the Company during his term of service.

Looking into the second half of 2007 and beyond, we have full confidence in the Chinese fertilizer market and the prospects of the Group. The world's population keeps rising, bio-energy is booming, and both have accelerated the rigid demand for grains. On the other hand, the area of arable land is limited, and grain production tends to fluctuate due to the impact of climatic changes and natural disasters. Therefore, it would be a long-standing necessity to increase grain production by fertilizer application. This would be particularly the case for China, with a population of 1.3 billion and being the largest grain producer and consumer in the world, the growth in fertilizer consumption is of great significance to ensure the country's food security.

In second half 2007 the Group will, in line with its strategic positioning of "marketing-services", dedicate to push forward the overall strategy of "centering on marketing and distribution and expanding into both upstream and downstream of the industry chain." We will continue to enhance the Group's market position as the largest fertilizer distributor and service provider in China, and strive to achieve leaping-forward growth in related business segments through merger and acquisitions. Aiming to turn the Company into the largest comprehensive service provider of agricultural inputs in China with a global lead, we will continue to bring higher returns to the shareholders, create wealth for society, and make more contributions to the nation's food security and agricultural development.

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

Liu De Shu

Chairman of the Board

Hong Kong, 27 August 2007

Management Review and Prospect

The first half of 2007 witnessed 11.5% economic growth in China. The Central Government and local government at various levels continued to aid the agricultural sector and the farmers with more preferential policies, leading to a sound growth of the farming industry and the rural economy. Harvests of summer grain crops continued to increase for the fourth consecutive year. The farmers' per capita cash income rose by 13.3% year on year, with the sale of farm product still being the single largest source of income for the farmers, which was about 42% of the total, and up by 17.3% year on year. This in turn had stimulated the farmers' willingness to increase input in agricultural production, and consequently boosting the farmers' demand for fertilizers and other agricultural inputs. Being the largest fertilizer enterprise in China, the Group will benefit from the sustainable development of the Chinese agriculture in the years to come.

However, in the first half of 2007 the Group was confronted with some new negative factors. A burst of incremental production capacity of nitrogen fertilizer coupled with 30% tariff imposed by the government to curb export had worsened the oversupply situation of the Chinese nitrogen market, and the falling prices of nitrogen fertilizer had created many complications and uncertainty for the Group's nitrogen business operations. In addition, international ocean freight surged to a record high, significantly pushing up the cost of imported fertilizers. Facing such circumstances, the management strove to be highly responsible for all the shareholders, and adopted proactive measures to overcome the difficulties under the guidance and support from the Board of Directors. Adhering to the strategy of "centering on marketing and distribution and expanding into both upstream and downstream of the industry chain", the Group was able to maintain sustained and rapid growth and achieved record highs in business performance.

Financial Performance

For the six months ended 30 June 2007, turnover of the Group reached HK\$14.34 billion, up by 39% year on year; net profit excluding the changes of HK\$ 79 million in fair value of derivative component of convertible loan notes was HK\$ 610 million, up by 31% year on year; and EPS increased to 10.49 HK cents, up by 31% year on year.

Product Operations

For the six months ended 30 June 2007, total sales volume of the Group reached 7.9 million tons, up by 29% year on year, which further enhanced the Group's market position as the largest fertilizer distributor and service provider in China.

Among this, potash business scored 2.92 million tons in sales, up by 33% year on year. The Group's leading position in the Chinese potash market continued to improve, with market share rising from 45% in 2006 to 54%. The relatively early conclusion of the 2007 annual potash contract negotiations had helped to eliminate potential uncertain factors affecting the Group's potash business, meanwhile the Group was able to bring into full play its advantages in strategic alliance with both international and domestic potash suppliers as well as the advantage of its distribution network, and expanded market share by enlarging the customer base for both agricultural-use and industrial-use potash.

The sales volume of nitrogen fertilizers was 2.37 million tons, up by 31% year on year, and boosting the Group's market share up from 8% in 2006 to 10%. This was mainly attributable to the implementation of the Group's supply chain management strategy. Following strategic investment in Luxi Chemical and Hualu Hengsheng in 2006, in first half 2007 the Group made strategic investment in China XLX Fertilizer Ltd, which is a Singapore-listed company. Together with the expansion of the supply system including long-term contractors and regional suppliers, the Group's nitrogen fertilizer supply base was further enlarged.

Sales of phosphate and compound fertilizers amounted to 2.28 million tons, up by 32% year on year. This was mainly attributable to several factors, including rising prices, the advantage of integrated upstream and downstream operations of the phosphate and compound fertilizer business, as well as increased supplies from the upstream production enterprises. All this jointly enabled the growth in both scale and profit.

Upstream Production

In first half 2007, the Group had equity interest in seven fertilizer production enterprises, with total production capacity rising by 0.6 million tons to 3.63 million tons, representing an increase of 20%. For the six months ended 30 June 2007, these manufacturers supplied 1.52 million tons of fertilizers altogether to the Group, which rose by 23% year on year.

In first half 2007, production enterprises in which the Group had equity interest followed the guidance of "Recycling Economy", and made considerable progress in implementing "energy-saving and emission reduction." For example, Sinochem Fuling adopted the technique of "categorizing and repeatedly re-using" of water resource, which enabled the company to recover a large amount of phosphate resource from waste water. In addition, by utilizing the waste heat for power generation, the company was able to get an additional power supply of 50 million kwh per year, bringing in good economic returns.

Downstream Distribution

In first half 2007, the Group followed the preset development strategy and continued to strive for the strategic goal of building 2,000 distribution centers in 1,800 agricultural counties. The number of distribution centers increased to 1,531, or 156 newly added, covering 22 agricultural provinces and 80% of the country's arable land in China.

For the six months ended 30 June 2007, the sales volume made through the distribution network reached 4.96 million tons, up by 26% over the corresponding period of last year, showing that the quality and efficiency of the distribution network continued to improve.

The customer base, of which the majority is at township level, further expanded to more than 22,000. These customers have become the most important resource of the distribution centers, as well as a solid foundation for the distribution network to uplift its marketing abilities and to increase the market share.

Management Review and Prospect

Providing various services to end-users was further promoted as a long-term strategy of the Group. In first half 2007, the Group launched a series of activities for public welfare, including “soil survey services for model villages of scientific fertilizer application”, and “movies for the farmers”, which was a joint event with China Film Group Corporation, covering 100 counties with 10,000 movie shows. These activities had benefited over 3 million farmers, and were favorably reported and publicized by major Chinese media organizations, such as Xinhua News Agency, the People’s Daily, CCTV, Central People’s Radio Station, Economic Daily, Guangming Daily, and the Farmers’ Daily. These public activities not only enhanced product sales and brand value, but also uplifted the image of the Group as a socially responsible company.

Internal Control and Management

The management of the Group has always attached top priority to the security of shareholders’ assets value, and therefore taking the establishment and improvement of an advanced and standardized internal control and management system as the foundation for the Company’s long-term, healthy development. In first half 2007, the internal control and risk management system was optimized according to COSO framework, including upgrading and expanding functions of SAP and Distribution Management System (DMS), in particular. After jointly setting up a Cash Management Platform (CMP) with Agricultural Bank of China in 2006, the Company signed strategic cooperation agreement with China UnionPay and put “Group Client Service System” at POS terminal into use, which can collect money all day round at outlets of Agricultural Bank, Post Deposit and Rural Credit Cooperatives, without restrictions of office hours or holidays. This has greatly helped to strengthen the risk prevention and control mechanism of the distribution network, and meanwhile promoted the network to develop business in the vast rural areas.

Outlook

Though the Chinese government adopted a series of monetary and fiscal policies to prevent its fairly fast economic growth from overheating, its support to agriculture, the rural areas and the farmers was not impacted but even strengthened. Fiscal investment budget of the Central Government reached RMB391.7 billion, up by RMB52 billion over 2006, or an increase of 15.3%. Among it, subsidy directly to grain growers and comprehensive subsidies directly for agricultural inputs amounted to RMB42.7 billion, up by 63%. Such preferential policies would help to stimulate the demand for fertilizers to maintain the momentum of stable and sustained growth, therefore providing a favorable external environment for the Group’s future development.

Management Review and Prospect

In second half 2007, the Group will continue to push forward the strategy of “centering on marketing and distribution and expanding into both downstream and upstream of the industry chain”, and keep working hard to fulfill the goal of expanding the scale of distribution network by building distribution centers in 1,800 agricultural counties. The management will push forward the strategic task of acquiring the three fertilizer assets in which Sinochem Corporation has equity interest with an aim to constantly improve the Company’s profitability and ability of sustainable development. We will continue to participate in industry re-organization, consolidate both the international and domestic multi-channel supply system, and improve product mix and marketing services so as to expand the business scale and profitability of the Company. All these efforts will jointly help to further improve the leading market position of the Group as China’s largest fertilizer distributor and service provider. On such a basis, we will explore business opportunities of other related products, and ready ourselves to grasp such opportunities for leaping-forward growth. Our aim is to turn the Group into the largest comprehensive service provider of agricultural inputs in China with a global lead, and create higher value and returns for all the shareholders.

Chronicle of Events

1. In January 2007, the Board of Directors approved the Group's 2007-2009 Three-Year Strategic Development Plan.
2. In February 2007, the annual potash contract negotiations were concluded. The Group signed potash purchase contracts with international suppliers BPC, CANPOTEX, DSW and APC, respectively.
3. In March 2007, a new 600,000 tons per annum DAP plant successfully went into production at Guiyang Sinochem-Kailin Fertilizer Company.
4. In March 2007, the Group launched a three-month promotional program to boost customer loyalty for Sinochem Canadian potash in the name of "30 years of trust in Canadian potash and 30 years of Sinochem services." Through organizing lectures and roadshows on agricultural services, and the building of "Sinofert model villages of scientific fertilizer application," the brand awareness of Sinochem Canadian potash was further enhanced among the farmers.
5. In April 2007, the Company published its 2006 annual report.
6. In April 2007, the agrichemical service activities conducted by the Group featuring soil testing for balanced fertilizer application and building "model villages" in such work were widely reported and publicized by major national mass media organizations, including Xinhua News Agency, People's Daily, CCTV, the Central People's Broadcasting Station, Economic Daily, Guangming Daily and Farmers' Daily.
7. In April 2007, with the assistance of China Film Corporation the Group launched the three-month movie-show program to introduce good movies and science and education films to the farmers. A total of 10,000 movie shows were put on in 100 counties in China, directly benefiting over three million viewers.
8. In May 2007, Mr. Du Ke Ping, CEO of the Company, headed the Sinofert delegation and attended the 75th annual meeting of the International Fertilizer Industry Association (IFA) held in Istanbul, Turkey. During the meeting, Mr. Du and delegation members met with other delegates from over 50 international fertilizer suppliers and traders to discuss mutual cooperation.
9. In June 2007, the Group subscribed to 49.90 million new shares of China XLX Fertilizer, Ltd (Singapore Exchange Stock Code: CXLX) at S\$0.77 per share, which is 4.99% of its total issued shares.
10. In June 2007, the Group signed a strategic cooperation agreement with China UnionPay on banking card payment collection, under which the POS "Group Customer Service System" was put into use in all the distribution centers of the Group nationwide.
11. In June 2007, the shareholders annual general meeting of the Company was held.

Management's Discussion and Analysis

For the six months ended 30 June 2007, sales volume of the Group reached 7.90 million tons, turnover was HK\$14.34 billion, up by 28.51% and 39.17%, respectively, over the corresponding period of 2006.

For the six months ended 30 June 2007, gross profit of the Group reached HK\$1,265 million, up by 50.85% year on year; net profit was HK\$530 million, up by 13.98% year on year. Net profit excluding the changes in fair value of derivative component of the convertible loan notes reached HK\$610 million, representing an increase of 30.99% over the corresponding period of 2006.

I. Operation Scale

1. Sales volume

For the six months ended 30 June 2007, sales volume of the Group reached 7.90 million tons, up by 28.51% over the corresponding period of 2006.

The 2007 annual potash contract negotiations were concluded in February, which enabled the Group's procurement and sales of potash progressing in a normal manner. During the reporting period, sales volume of imported fertilizers of the Group was 3.19 million tons, up by 29.53% over the same period of 2006. By enhancing supply chain management and expanding distribution network, the Group increased its sales of domestic fertilizers to 4.38 million tons, up by 34.11% year on year.

In terms of product structure, the sales of potash fertilizers increased by 33.49% year on year, the sales of nitrogen fertilizers increased by 30.80%, the sales of phosphate fertilizer increased by 75.47%, while sales of compound fertilizers grew slightly.

I. Operation Scale (Cont'd)

2. Turnover

For the six months ended 30 June 2007, turnover of the Group was HK\$14.34 billion, up by HK\$4.036 billion over the corresponding period of 2006, or an increase of 39.17%, which was higher than the 28.51% increase rate of sales volume. This was mainly due to the 8.29% increase of average selling price over the same period of last year.

Table 1:

	For the six months ended 30 June 2007		For the six months ended 30 June 2006	
	Turnover HK\$'000	As percentage of total turnover	Turnover HK\$'000	As percentage of total turnover
Potash fertilizers	5,931,787	41.36%	3,994,041	38.76%
Nitrogen fertilizers	3,393,540	23.66%	2,600,831	25.24%
Compound fertilizers	2,176,299	15.18%	1,973,100	19.14%
Phosphate fertilizers	2,447,025	17.06%	1,384,324	13.43%
Others	393,409	2.74%	353,411	3.43%
Total	14,342,060	100.00%	10,305,707	100.00%

II. Profit

1. Gross profit and gross profit margin

For the six months ended 30 June 2007, gross profit of the Group was HK\$1,265 million, increasing by HK\$427 million over the same period of 2006, up by 50.85%.

The Group adopted different strategies for different products: the potash business maintained a stable profit margin through solidifying and expanding both international and domestic supply channels and customer resources; and the gross margin of nitrogen business fell due to an intensified oversupply situation caused by new nitrogen capacity going into production and 30% export duty imposed on urea by the government to limit export quantity. As a result, urea prices fell, and profitability of the whole nitrogen industry decreased. The gross margin of phosphate and compound fertilizers increased thanks to rising prices both at home and abroad, as well as the effects of the Group's development strategy.

II. Profit (Cont'd)

1. *Gross profit and gross profit margin (Cont'd)*

In general, for the six months ended 30 June 2007 gross profit margin of the Group was 8.82%, with profitability remaining stable.

2. *Share of results of jointly controlled entities*

For the six months ended 30 June 2007, the share of results of jointly controlled entities of the Group was HK\$17 million, which was down by HK\$5 million, or 24.35% from that of HK\$22 million for the corresponding period of 2006. This was mainly caused by lowered profit contribution by the production enterprises, which was the result of increased cost of raw materials for phosphate and compound fertilizer production.

3. *Income tax expense*

For the six months ended 30 June 2007, income tax expense of the Group was HK\$152 million, with taxation burden being 21.88%. The taxation burden excluding changes in fair value of derivative component of convertible loan notes was 19.64%. For the corresponding period of 2006, the taxation burden was 13.85%.

The subsidiaries of the Group are registered in China mainland, Macao and Hong Kong, respectively, where profit tax rates vary. Among them, the tax rate of China mainland is 33%; the Group's profit generated in Macao is exempted from profit tax; while the tax rate of Hong Kong is 17.5%. The Company paid tax according to the prevailing local tax law and regulations. The tax burden increased in the first half of 2007, which was caused by a price surge in the domestic market. This in turn drove up profit, and consequently lifting overall tax burden of the Group.

4. *Net profit and net profit margin*

For the six months ended 30 June 2007, the Group realized net profit of HK\$530 million, up by HK\$65 million, or an increase of 13.98% over that for the corresponding period of 2006. Net profit excluding the changes in fair value of derivative component of convertible loan notes was HK\$610 million, up by HK\$144 million, or an increase of 30.99% year on year. This was mainly attributable to an increase of gross profit margin and higher sales volume.

For the six months ended 30 June 2007, the net profit margin was 3.70%, net profit margin excluding the changes in fair value of derivative component of convertible loan notes was 4.25%.

III. Expenditures

Selling and distribution expenses for the six months ended 30 June 2007 was HK\$254 million, up by 12.25% over that of HK\$226 million for the corresponding period of 2006. It was mainly due to an increase in sales volume, which in turn proportionally increased logistical expenses in transportation and warehousing.

Administrative expense for the six months ended 30 June 2007 was HK\$162 million, up by 125.19% from that of HK\$72 million for the corresponding period of 2006. Excluding the effect of the "allowance for inventories", administrative expense would have been up by HK\$31 million, or an increase of 31.75% year on year. Higher administrative expense was mainly attributable to the expansion of the distribution network.

Finance cost for the six months ended 30 June 2007 was HK\$121 million, up by 140.64% over that of HK\$50 million for the corresponding period of 2006, which was mainly due to a 70% increase in procurement volume in response to expansion of business in 2007. The use of operating capital therefore increased proportionally. Meanwhile, during the reporting period the basic RMB loan interest rate went up by approximately one percentage point compared with the same period of 2006. In addition, during the reporting period interest payment incurred by the convertible loan notes was HK\$41 million, while there was no such expense for the same period of 2006.

IV. Cash Flow

Cash flow of the Group for the six months ended 30 June 2007 was a net inflow of HK\$55 million, which included:

- a net cash outflow of HK\$356 million from business operations, which was mainly attributable to higher inventories;
- a net cash outflow of HK\$291 million from investment activities, i.e., HK\$97 million for property, plants and equipment purchase, HK\$200 million for the available-for-sale investments and HK\$6 million received from investment returns; and
- a net cash inflow of HK\$702 million from financing activities, which was mainly attributable to increased bank loans.

V. Inventory Turnover

The inventory balance of the Group as at 30 June 2007 was HK\$5,491 million, increasing by HK\$1,126 million, or 25.81% from that of HK\$4,365 million as at 31 December 2006. Due to faster turnover rate, inventory turnover day^(Note) decreased from 85 days in 2006 to 68 days in the first half of 2007, thus improving assets operating efficiency.

Note: Inventory turnover day for the six months ended 30 June 2007 was calculated on the basis of average inventory balance as at the end of the reporting period divided by cost of goods sold, and multiplied by 180 days.

Inventory turnover day in 2006 was calculated on the basis of average inventory balance as at the end of the reporting period divided by cost of goods sold, and multiplied by 365 days.

VI. Trade and Bills Receivables Turnover

The balance of the Group's trade and bills receivables as at 30 June 2007 was HK\$1,274 million, basically unchanged from that of HK\$1,272 million as at 31 December 2006.

Trade and bills receivables turnover day^(Note) decreased from 18 days in 2006 to 16 days for the six months ended 30 June 2007.

Note: The figure for the six months ended 30 June 2007 was calculated on the basis of average trades and bills receivables balance as at the end of the reporting period divided by turnover, and multiplied by 180 days.

The figure for 2006 was calculated on the basis of average trades and bills receivables balance as at the end of the reporting period divided by turnover, and multiplied by 365 days.

VII. Available-for-Sale Investments

As at 30 June 2007, the balance of the Group's available-for-sale investments was HK\$857 million, up by 195.08% over that of HK\$290 million as at 31 December 2006, representing an increase of HK\$567 million. This was mainly attributable to investment of HK\$197 million in China XLX Fertilizer, Ltd, and fair value appreciation of HK\$360 million in Shandong Luxi Chemical Co., Limited, Shandong Hualu Hengsheng Group Co., Limited and China XLX Fertilizer, Ltd.

VIII. Short-Term and Long-Term Loans

As at 30 June 2007, the balance of the Group's long-term loans was HK\$439 million, up by 20.91% over that of HK\$363 million as at 31 December 2006, representing an increase of HK\$76 million. This was mainly caused by a long-term loan obtained and used for the 0.2 million ton ammonium and 0.2 million ton urea per annum project at Sinochem Chongqing Fuling Chemical Fertilizer Company Limited.

As at 30 June 2007, the balance of the Group's short-term loans was HK\$805 million, up by 712.27% over that of HK\$99 million as at 31 December 2006, representing an increase of HK\$706 million. This was mainly caused by current capital obtained and used to enlarge business scale at Sinochem Chongqing Fuling Chemical Fertilizer Company Limited.

IX. Trade and Bills Payables

As at 30 June 2007, the balance of the Group's trade and bills payables was HK\$2,331 million, up by 28.42% from that of HK\$1,815 million as at 31 December 2006, representing an increase of HK\$516 million. This was mainly attributable to increased payment for goods purchased along with business development.

X. Receipts in Advance and Other Payables

As at 30 June 2007, the balance of the Group's receipts in advance and other payables was HK\$359 million, decreasing by 61.78% from that of HK\$939 million as at 31 December 2006, representing a fall of HK\$580 million. This was mainly attributable to the normal practice of building up inventories at the end of the year for sales in the coming spring season, therefore the amount of receipts in advance from the Group's customers was much more than that at the middle of the year.

XI. Convertible Bonds

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

For the period ended 30 June 2007, the notes with total face value of HK\$5 million was converted into 1,336,898 ordinary shares of the Company at a conversion price of HK\$3.74 per share, and the total face value of outstanding loan notes was HK\$1,295 million. According to related accounting standards, the Company appointed CB Richard Ellis Limited for an independent assessment on fair value of the outstanding loan notes. The loss arising from change in fair value of derivative component of the convertible loan notes and the finance cost amortized to the convertible loan notes was HK\$79 million and HK\$41 million, respectively, which were recorded in income statement of the reporting period.

XII. Other Financial Indicators

Earnings per share (EPS) for the six months ended 30 June 2007 was 9.13 HK cents; the EPS excluding changes in fair value of derivative component of convertible loan notes was 10.49 HK cents, up by 30.96% over the corresponding period of last year. Return on Equity (ROE) for the six months ended 30 June 2007 was 10.32%; the ROE excluding changes in fair value of derivative component of convertible loan notes was 11.86%, increasing by 1.55 percentage points year on year. This was mainly attributable to 30.99% increase in net profit over the corresponding period of 2006.

Table 2:

	For the Six Months Ended 30 June 2007	For the Six Months Ended 30 June 2006
Profitability		
EPS (HK cents) ^(Note 1)	9.13	8.01
EPS (HK cents) ^(Note 2)	10.49	8.01
Return on equity ^(Note 3)	10.32%	10.31%
Return on equity ^(Note 4)	11.86%	10.31%

Note 1: Calculated on the basis of net profit for the reporting period (excluding minority interest) divided by weighted average number of shares for the reporting period.

Note 2: Calculated on the basis of net profit for the reporting period (excluding minority interest and changes in fair value of derivative component of convertible loan notes) divided by weighted average number of shares for the reporting period.

Note 3: The figure for the six months ended 30 June 2007 was calculated on the basis of net profit for the reporting period (excluding minority interest) divided by total equity as at the end of the reporting period.

The figure for the six months ended 30 June 2006 was calculated on the basis of return on equity for 2006 divided by 2.

Note 4: The figure for the six months ended 30 June 2007 was calculated on the basis of net profit for the reporting period (excluding minority interest and changes in fair value of derivative component of convertible loan notes) divided by total equity as at the end of the reporting period.

The figure for the six months ended 30 June 2006 was calculated on the basis of return on equity for 2006 divided by 2.

Management's Discussion and Analysis

XII. Other Financial Indicators (Cont'd)

As at 30 June 2007, the current ratio was 1.68 and the debt-to-equity ratio was 46.71%, which proved sound solvency for both short-term and long-term loans.

Table 3:

	As at 30 June 2007	As at 31 December 2006
Solvency		
Current ratio ^(Note 1)	1.68	1.93
Debt-to-equity ratio ^(Note 2)	46.71%	37.03%

Note 1: Calculated on the basis of current assets divided by current liability as at the end of the reporting period.

Note 2: Calculated on the basis of total interest-bearing debt divided by total equity as at the end of the reporting period.

XIII. Liquidity and Financial Resources

The Group's principal financial source included cash generated from business operations, bank borrowings, and issue of new shares and loan notes. All the financial resources were primarily used for the Group's trading and distribution, production, repayment of liabilities as they fall due and for related capital expenditures.

As at 30 June 2007, cash and cash equivalents of the Group were HK\$134 million, which was mainly denominated in RMB and US dollar.

Set out below is an analysis of long-term and short-term loans of the Group:

Table 4:

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Secured	24,630	53,747
Guaranteed	27,196	19,906
Unsecured	1,192,359	388,617
Total	1,244,185	462,270

Management's Discussion and Analysis

XIII. Liquidity and Financial Resources (Cont'd)

Table 5:

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Within one year	805,104	99,118
Within two to five years	305,666	363,152
More than five years	133,415	–
Total	1,244,185	462,270

The Group intended to meet its obligations for the above loans by using internal resources.

As at 30 June 2007, the Group had banking facilities of HK\$10,489 million, including US\$495 million, RMB6,448 million and HK\$3 million as denominated in respective currencies. The amount of banking facilities already used was HK\$3,354 million, and that of unused was HK\$7,135 million.

XIV. Operation and Financial Risks

The Group's operation risks include: uncertainties of the impact of Chinese government's reform policies on the fertilizer industry due to the lack of detailed provisions; price fluctuations of the fertilizer market; as well as uncertainties caused by potential delays in the annual potash contract negotiations.

The Group's financial risks include mainly exchange rate risk, credit risk and interest rate risk. The change in fair value of derivative component of the convertible loan notes may directly affect the profit of the Group.

XV. Contingent Liability

As at 30 June 2007, the Company provided approximately HK\$3,030 million to guarantee common loans for its subsidiaries.

The Group had no material contingent liabilities.

XVI. Capital Commitment

Table 6:

	As at 30 June 2007 HK\$'000	As at 31 December 2006 HK\$'000
Assets under construction:		
Contracted but not provided for	183,730	187,404
Authorized but not contracted for	21,179	21,655
	204,909	209,059
Investment in a jointly controlled entity:		
Investment in Yunan Three-Circle Sinochem Fertilizer Company Limited	143,678	139,345
Total	348,587	348,404

XVII. Major Investment

As at 30 June 2007, the Group's major investment amounted to HK\$97 million, which was mainly invested in projects under construction at Sinochem Fuling.



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF SINFERT HOLDINGS LIMITED

Introduction

We have reviewed the interim financial information set out on pages 21 to 38, which comprises the condensed consolidated balance sheet of Sinofert Holdings Limited as of 30 June 2007 and the related condensed consolidated income statement, statement of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Independent Review Report

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

27 August 2007

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	Six months ended	
		30 June 2007 HK\$'000 (unaudited)	30 June 2006 HK\$'000 (unaudited)
Revenue		14,342,060	10,305,707
Cost of sales		(13,076,611)	(9,466,851)
Gross profit		1,265,449	838,856
Other income		30,562	42,255
Selling and distribution expenses		(254,027)	(226,299)
Administrative expenses		(162,391)	(72,114)
Changes in fair value of derivative financial instruments		(79,179)	–
Finance costs	4	(121,469)	(50,477)
Share of results of jointly controlled entities		16,728	22,111
Profit before taxation	5	695,673	554,332
Income tax expense	6	(152,211)	(76,802)
Profit for the period		543,462	477,530
Attributable to:			
– equity holders of the Company		530,353	465,318
– minority interests		13,109	12,212
		543,462	477,530
Dividends	7	134,195	116,740
Earnings per share			
Basic	8	9.13 HK cents	8.01 HK cents
Diluted		9.11 HK cents	8.01 HK cents

Condensed Consolidated Balance Sheet

At 30 June 2007

	Notes	As at 30 June 2007 HK\$'000 (unaudited)	As at 31 December 2006 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment	9	980,470	900,986
Investment properties	9	14,532	14,532
Prepaid lease payments		105,981	106,766
Mining rights		24,383	23,648
Goodwill		356,503	356,503
Interests in jointly controlled entities		388,398	381,656
Available-for-sale investments	10	856,976	290,419
Deferred tax assets		15,819	9,422
		2,743,062	2,083,932
Current assets			
Inventories		5,490,920	4,364,565
Trade and bill receivables	11	1,274,307	1,272,357
Prepaid lease payments		2,359	2,233
Advance payments and other receivables		1,455,757	1,293,856
Amounts due from ultimate holding company		–	41,765
Bill discounted to banks		2,493,605	1,364,806
Pledged bank deposits		10,959	6,287
Bank balances and cash		134,480	79,274
		10,862,387	8,425,143
Current liabilities			
Trade and bill payables	12	2,331,105	1,815,256
Receipts in advance and other payables		358,924	939,177
Dividend payable		134,195	–
Bank advances for discounted bills		2,493,605	1,366,647
Amounts due to ultimate holding company		11,328	–
Derivative financial liabilities		163,912	86,457
Taxation payable		163,070	47,791
Bank borrowings – due within one year	13	805,104	99,118
		6,461,243	4,354,446
Net current assets		4,401,144	4,070,697
Total assets less current liabilities		7,144,206	6,154,629

Condensed Consolidated Balance Sheet

At 30 June 2007

	<i>Notes</i>	As at 30 June 2007 HK\$'000 (unaudited)	As at 31 December 2006 HK\$'000 (audited)
Non-current liabilities			
Bank borrowings – due after one year	13	439,081	363,152
Convertible loan notes		1,256,854	1,220,407
Deferred tax liabilities		94,207	27,099
		1,790,142	1,610,658
Net Assets			
		5,354,064	4,543,971
Capital and reserves			
Issued equity	14	767,900	767,766
Reserves		4,370,445	3,580,586
Equity attributable to equity holders of the Company		5,138,345	4,348,352
Minority interests		215,719	195,619
Total equity			
		5,354,064	4,543,971

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2007

	Attributable to equity holders of the Company											
	Issued equity HK\$'000	Share premium reserve HK\$'000	Merger reserve HK\$'000	Capital reserve HK\$'000	Statutory reserves HK\$'000	Investment revaluation reserve HK\$'000	Share options reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 January 2006	767,766	-	245,632	270,225	278,778	-	-	26,788	1,885,469	3,474,658	186,055	3,660,713
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	-	-	-	-	18,098	-	18,098	274	18,372
Profit for the period	-	-	-	-	-	-	-	-	465,318	465,318	12,212	477,530
Total recognised income for the period	-	-	-	-	-	-	-	18,098	465,318	483,416	12,486	495,902
Disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-	(3,194)	(3,194)
Recognition of equity – settled share based payments	-	-	-	-	-	-	2,513	-	-	2,513	-	2,513
Dividend paid	-	-	-	-	-	-	-	-	(116,740)	(116,740)	-	(116,740)
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(1,830)	(1,830)
Transfer	-	-	-	-	445	-	-	-	(445)	-	-	-
At 30 June 2006	767,766	-	245,632	270,225	279,223	-	2,513	44,886	2,233,602	3,843,847	193,517	4,037,364
Gain on fair value changes of available-for-sale investments	-	-	-	-	-	40,106	-	-	-	40,106	-	40,106
Deferred taxation liability arising on fair value changes of available-for-sale investments	-	-	-	-	-	(13,235)	-	-	-	(13,235)	-	(13,235)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	43,798	-	43,798	6,760	50,558
Total income recognised directly in equity	-	-	-	-	-	26,871	-	43,798	-	70,669	6,760	77,429
Profit for the period	-	-	-	-	-	-	-	-	430,928	430,928	(3,676)	427,252
Total recognised income for the period	-	-	-	-	-	26,871	-	43,798	430,928	501,597	3,084	504,681
Disposals of subsidiaries	-	-	-	-	-	-	-	-	-	-	(632)	(632)
Recognition of equity – settled share based payments	-	-	-	-	-	-	2,908	-	-	2,908	-	2,908
Dividends paid to minority shareholders of subsidiaries	-	-	-	-	-	-	-	-	-	-	(350)	(350)
Transfer	-	-	-	-	24,725	-	-	-	(24,725)	-	-	-
At 31 December 2006	767,766	-	245,632	270,225	303,948	26,871	5,421	88,684	2,639,805	4,348,352	195,619	4,543,971
Gain on fair value changes of available-for-sale investments	-	-	-	-	-	360,482	-	-	-	360,482	-	360,482
Deferred taxation liability arising on fair value changes of available-for-sale investments	-	-	-	-	-	(80,561)	-	-	-	(80,561)	-	(80,561)
Exchange differences arising on translation of foreign operations	-	-	-	-	-	-	-	104,635	-	104,635	6,240	110,875
Total income recognised directly in equity	-	-	-	-	-	279,921	-	104,635	-	384,556	6,240	390,796
Profit for the period	-	-	-	-	-	-	-	-	530,353	530,353	13,109	543,462
Total recognised income for the period	-	-	-	-	-	279,921	-	104,635	530,353	914,909	19,349	934,258
Capital contribution from minority interest shareholders	-	-	-	-	-	-	-	-	-	-	751	751
Recognition of equity – settled share based payments	-	-	-	-	-	-	2,862	-	-	2,862	-	2,862
Dividend declared	-	-	-	-	-	-	-	-	(134,195)	(134,195)	-	(134,195)
Shares issued upon conversion of convertible loan notes	134	6,283	-	-	-	-	-	-	-	6,417	-	6,417
At 30 June 2007	767,900	6,283	245,632	270,225	303,948	306,792	8,283	193,319	3,035,963	5,138,345	215,719	5,354,064

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Six months ended	
	30 June 2007 HK\$'000 (unaudited)	30 June 2006 HK\$'000 (unaudited)
Net cash from (used in) operating activities	(355,823)	778,557
Net cash (used in) from investing activities		
Purchase of property, plant and equipment	(97,861)	(146,412)
Additional investment in available for sale investment	(199,739)	–
Other investing cash flows	6,429	46,737
	(291,171)	(99,675)
Net cash (used in) from financing activities		
Additional borrowings	3,223,000	2,804,000
Repayment of borrowings	(2,441,000)	(3,279,000)
Dividend paid	–	(116,740)
Interest paid	(80,413)	(52,429)
	701,587	(644,169)
Net increase in cash and cash equivalents	54,593	34,713
Cash and cash equivalents at the beginning of the period	79,274	66,551
Effect of foreign exchange rate changes	613	995
Cash and cash equivalents at the end of the period, comprising bank balances and cash	134,480	102,259

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

1. Basis of Preparation

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the Listing Rules) and with Hong Kong Accounting Standard 34 (“HKAS 34”), Interim Financial Reporting.

2. Principal Accounting Policies

The condensed 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.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, the following new standard, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning on 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
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

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

The adoption of these new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early applied the new standards or interpretations that have been 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.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

3. Segment Information

The Group's primary format for reporting segment information is business segments.

For management purposes, the Group is currently organised into two main operating business:

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

Business segments

	Six months ended 30 June 2007				
	Sourcing and distribution HK\$'000	Production HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue					
External revenue	13,240,156	1,101,904	–	–	14,342,060
Inter-segment revenue <i>(Note)</i>	63,220	292,815	–	(356,035)	–
	13,303,376	1,394,719	–	(356,035)	14,342,060
Segment result	838,403	51,615	–	–	890,018
Unallocated corporate expenses					(13,148)
Interest income	2,297	426			2,723
Interest expenses on bank borrowings	(52,923)	(27,406)			(80,329)
Interest expenses on convertible loan notes					(41,140)
Changes of fair value on derivatives financial instruments					(79,179)
Share of results of jointly controlled entities		16,728			16,728
Profit before taxation					695,673
Income tax expense					(152,211)
Profit for the period					543,462

Note: Inter-segment sales are charged at prevailing market rates

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

3. Segment Information (Cont'd)

Business segments (Cont'd)

	Six months ended 30 June 2006				
	Sourcing and distribution HK\$'000	Production HK\$'000	Others HK\$'000	Elimination HK\$'000	Total HK\$'000
Revenue					
External revenue	9,701,841	603,866	–	–	10,305,707
Inter-segment revenue ^(Note)	10,182	350,406	–	(360,588)	–
	9,712,023	954,272	–	(360,588)	10,305,707
Segment result	545,461	47,320	2,646	–	595,427
Unallocated corporate expenses					(14,253)
Interest income	997	345	182		1,524
Interest expenses on bank borrowings	(35,007)	(13,384)	(2,086)		(50,477)
Share of results of jointly controlled entities		22,111			22,111
Profit before taxation					554,332
Income tax expense					(76,802)
Profit for the period					477,530

Note: Inter-segment sales are charged at prevailing market rates

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

4. Finance Costs

	Six months ended	
	30 June 2007	30 June 2006
	HK\$'000	HK\$'000
Interest on bank borrowings		
– wholly repayable within five years	(78,995)	(48,391)
– not wholly repayable within five years	(1,334)	(2,086)
Interest on convertible loan notes	(41,140)	–
	(121,469)	(50,477)

5. Profit Before Taxation

	Six months ended	
	30 June 2007	30 June 2006
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging:		
Allowance for inventories	32,665	–
Amortisation of prepaid lease payments	1,300	448
Depreciation of property, plant and equipment	45,404	25,789
and after crediting:		
Reversal of allowance for inventories	–	26,353
Government grants	1,166	11,878

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

6. Income Tax Expense

	Six months ended	
	30 June 2007	30 June 2006
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax	(6,342)	(276)
Taxation in other jurisdictions	(166,027)	(79,449)
	(172,369)	(79,725)
Deferred Tax		
Change of tax rate	(1,284)	–
Deferred taxation credit	21,442	2,923
	(152,211)	(76,802)

Hong Kong Profits Tax is calculated at 17.5% (2006: 17.5%) on the estimated assessable profit for the period.

Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Certain subsidiaries of the Company were exempted from the PRC Enterprise Income Tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. The tax benefit will expire in 2010.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC, which will change the tax rate from 33% to 25% for certain subsidiaries from 1 January 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

7. Dividend Paid

	Six months ended	
	30 June 2007 HK\$'000	30 June 2006 HK\$'000
Dividend recognised as distribution during the period:		
Final dividend of HK\$0.0201 per share in respect of 2005	–	116,740
Final dividend of HK\$0.0231 per share in respect of 2006	134,195	–

8. Earnings Per Share

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

	Six months ended	
	30 June 2007 HK\$'000	30 June 2006 HK\$'000
Earnings for the purpose of basic and diluted earnings per share	530,353	465,318
	'000 shares	'000 shares
Weighted average number of ordinary shares for the purposes of basic earnings per share	5,808,127	5,807,950
Effect of dilutive potential ordinary shares from the share options	16,093	4,622
Weighted average number of ordinary shares for the purposes of diluted earnings per share	5,824,220	5,812,572

The computation of diluted earnings per share does not assume the conversion of the Company's outstanding convertible loan notes as these notes were anti-dilutive.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

8. Earnings Per Share (Cont'd)

- (b) In order to provide additional information on the Group's performance, the basic and diluted earning per share excluding the impact of changes of fair value on derivatives is as follows:

	Six months ended	
	30 June 2007	30 June 2006
	HK\$'000	HK\$'000
Earnings for the purpose of basic and diluted earnings per share	530,353	465,318
Adjustment for:		
Changes in fair value of derivative component of convertible loan notes	79,179	—
Earnings excluding changes in fair value of derivatives component of convertible loan notes	609,532	465,318
Adjusted basic earnings per share	10.49 cents	8.01 cents
Adjusted diluted earnings per share	10.47 cents	8.01 cents

9. Movements in Property, Plant and Equipment and Investment Properties

During the period, the Group spent approximately HK\$97.9 million (2006: HK\$146.4 million) on the acquisition of property, plant and equipment.

The Group's investment properties had been revalued in respect of their value as at 31 December 2006 by Knight Frank Petty Limited, a firm of independent professional valuers, on market value basis. The directors considered that the carrying amounts of the Group's investment properties as at 30 June 2007 do not differ significantly from their fair values at that date.

10. Available-for-Sale Investments

During the period, the Group made new investments by purchasing 4.99% of issued capital of China XLX Fertilizer Ltd, a listed company in Singapore Exchange Limited, of approximately HK\$197.09 million and gain on fair value changes of approximately HK\$360.48 million is credited to investment revaluation reserves.

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

11. Trade and Bill Receivables

The Group allows a credit period of approximate 120 days. The aging analysis of trade and bill receivables at the reporting date is as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within 90 days	1,110,785	1,264,883
Between 91-180 days	149,841	1,463
Between 181-365 days	12,937	5,113
Over 365 days	744	898
	1,274,307	1,272,357

12. Trade and Bill Payables

The aging analysis of trade and bill payables at the reporting date is as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within 90 days	2,299,796	1,803,563
Between 91-180 days	20,508	1,427
Between 181-365 days	5,782	2,359
Over 365 days	5,019	7,907
	2,331,105	1,815,256

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

13. Borrowings

During the period, the Group obtained new bank loans amounting to approximately HK\$3,223 million and repaid the bank loans amounting to approximately HK\$2,441 million.

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Carrying amount repayable:		
Within one year	805,104	99,118
In more than one year, but not more than two years	10,613	94,415
In more than two years, but not more than five years	295,053	268,737
In more than five years	133,415	–
	1,244,185	462,270
Less: Amounts due within one year shown under current liabilities	(805,104)	(99,118)
Amounts due after one year	439,081	363,152

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

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Variable-rate borrowings	1,182,609	256,238
Fixed-rate borrowings	61,576	206,032
Total borrowings	1,244,185	462,270

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

	30 June 2007	31 December 2006
Variable-rate borrowings	0%-7.23%	0%-5.56%
Fixed rate borrowings	5.56%	5.56%

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

14. Issued Equity

	Six months ended 30 June 2007 HK\$'000	Twelve months ended 31 December 2006 HK\$'000
At the beginning of the period/year	767,766	767,766
Issue of new shares of par value of HK\$0.10 each:		
Conversion of convertible loan notes	134	–
At the end of the period/year	767,900	767,766

15. Commitments

(a) Capital commitments

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Capital expenditure in respect of property, plant and equipment:		
Contracted for but not provided for	183,730	187,404
Authorised but not contracted for	21,179	21,655
	204,909	209,059
Investment in a jointly controlled entity:		
Investment in Yunnan Three-Circles Sinochem Fertilizer Company limited	143,678	139,345
Total	348,587	348,404

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

15. Commitments (Cont'd)

(b) Operating lease arrangements

The Group as lessee

The Group had future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within one year	34,470	15,132
In the second to fifth year inclusive	40,380	7,488
Over five years	6,671	6,741
	81,521	29,361

The Group as lessor

The Group had contracted with tenants in respect of the rented premises which fall due as follows:

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Within one year	585	651
In the second to fifth year inclusive	14	55
	599	706

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

16. Related Party Transactions

- (a) During the period, the Group entered into the following significant transactions with related parties:

	Six months ended	
	30 June 2007 HK\$'000	30 June 2006 HK\$'000
Sales of fertilisers to ultimate holding company	606,858	575,403
Sales of fertilisers to related companies <i>(Note)</i>	253,536	11,933
Sales of fertilisers to jointly controlled entities	17,362	1,549
Purchases of fertilisers from ultimate holding company	221,443	358,728
Purchases of fertilisers from related companies <i>(Note)</i>	851,222	731,993
Purchases of fertilisers from jointly controlled entities	530,612	763,564
Import service fee paid to ultimate holding company	215	81
Import service fee paid to related companies <i>(Note)</i>	8,928	8,837
Rental expenses paid to a related company <i>(Note)</i>	2,587	2,147

Note: These companies' ultimate holding company is Sinochem Corporation which is also the ultimate holding of the Company. Sinochem Corporation was established in the People's Republic of China.

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

	30 June 2007 HK\$'000	31 December 2006 HK\$'000
Advance payments to suppliers:		
Sinochem Cargill	31,173	15,525
Sinochem Kailin	–	16,614
Qinghai Salt Lake	167,730	133,672
Sinochem Orient	8,949	8,479
Beijing Sinochem Tianji Trading Co., Ltd	50,372	71,862
Trade payables:		
Yongan Zhisheng	735	10,451
Sinochem Shandong	–	25,331
Sinochem Kailin	13,856	–
Receipts in advance:		
Sinochem Shandong	395	3,760
Other payables:		
Sinochem (United Kingdom) Limited	3,372	–

Notes to the Condensed Financial Statements

For the six months ended 30 June 2007

16. Related Party Transactions (Cont'd)

- (c) The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). In addition, the Group itself is part of a larger group of companies under Sinochem Corporation which is controlled by the PRC government. Apart from the transactions with Sinochem Corporation and fellow subsidiaries and other related parties disclosed as above, the Group also conducts business with other state-owned enterprises. The directors consider those state-owned enterprises are independent third parties so far as the Group's business transactions with them are concerned.

During the period, the Group entered into the following significant transactions with other state-owned enterprises as follows:

	Six months ended	
	30 June 2007	30 June 2006
	HK\$'000	HK\$'000
Sales of fertilisers	2,294,428	1,143,971
Purchases of fertilisers	2,047,998	1,455,806

(d) Compensation of key management personnel

	Six months ended	
	30 June 2007	30 June 2006
	HK\$'000	HK\$'000
Salaries and other benefits	7,149	3,926
Retirement benefit scheme contributions	44	64
	7,193	3,990

17. Post Balance Sheet Event

On 10 July 2007, the Company entered into a placing and subscription arrangement with third party investor, pursuant to which the Company agreed to place and issue 400,000,000 ordinary shares of the Company at a price of HK\$5.9 per share. These shares rank *pari passu* with the existing shares of the Company. The placing and subscription arrangement was completed on 24 July 2007.

The net proceeds from the subscription of approximately HK\$2,322 million are to be used for development of the Group's fertiliser production business, financing the expansion of the Group's nationwide fertiliser distribution network and general corporate purpose.

Interim Dividend

The Board of Directors resolved not to declare any interim dividend for the six months ended 30 June 2007.

Dividend Policy

The Board of Directors decided that for a period of 3 to 5 years commencing from 2005, 15% to 25% of the distributable profit of the Company for the year will be allocated for declaration of dividend. The Company did not declare dividend for the reporting period but will follow such dividend policy for the year.

Employees and Compensation Policy

As at 30 June 2007, the Group employed 4,648 full-time employees (including those employed by controlled entities). Employees are remunerated according to market rates. The Company has passed a resolution on adoption of a new share option scheme on the annual general meeting held on 28 June 2007.

In order to further improve the management skills and professional standard of the management of the Group and to enhance the overall quality of the employees so as to provide sufficient human resources to cater to the Group's rapid developments, and to improve its competitiveness, in the first half of 2007 the Group provided 81,187 hours of training courses for 3,187 person-times. The training courses covered areas such as operation and management of enterprise, legal and regulations, marketing management, finance, logistics, information technology, quality control, project management and production safety. As a result, the overall quality and the professional standard of the Group's management personnel and employees further improved.

Compensation comprises basic salary, annual bonus, benefits and long-term incentive award. The objective of the Company is to associate the interests of key employees with the performance of the Company and the interests of shareholders, as well as achieving balance of short-term and long-term benefits through a reasonable compensation structural design. Meanwhile, the Company also aims at maintaining the competitiveness of the overall compensation system. The level of cash compensation varies among different positions, and the proportion of performance-based bonus in direct compensation also increases with importance of duties. This is to ensure that the Company can recruit, retain and motivate high-calibre candidates required for the development of the Company and avoid excess reward. The Company reviews its compensation policy annually and engages professional intermediary if necessary so as to ensure the competitiveness of the compensation policy which, in turn, will support the business growth of the Company. No individual employee shall have the right to determine his/her own compensation.

Other Information

Share Option Scheme and Its Granting

Details of the share options granted, exercised, lapsed and cancelled under the share option scheme of the Company adopted on 26 August 2002 during the period and outstanding as at 30 June 2007 are as follows:

Grantee	Exercisable Period (Note 3)	Exercise Price (HK\$)	No of share options outstanding at 1 January 2007	Exercise	Cancelled/ Lapsed	No of share options outstanding at 30 June 2007	Approximate percentage of issued share capital of the Company
Mr. LIU De Shu ^(Note 1)	23 January 2008 – 22 January 2012	1.672	2,033,000	–	–	2,033,000	0.03%
Mr. SONG Yu Qing ^(Note 1)	23 January 2008 – 22 January 2012	1.672	1,582,000	–	–	1,582,000	0.03%
Mr. DU Ke Ping ^(Note 2)	23 January 2008 – 22 January 2012	1.672	5,213,000	–	–	5,213,000	0.09%
Dr. CHEN Guo Gang ^(Note 1)	23 January 2008 – 22 January 2012	1.672	1,582,000	–	–	1,582,000	0.03%
Mr. Harry YANG ^(Note 2)	23 January 2008 – 22 January 2012	1.672	1,582,000	–	–	1,582,000	0.03%
Employees	23 January 2008 – 22 January 2012	1.672	16,453,000	–	–	16,453,000	0.28%
			28,445,000	–	–	28,445,000	0.49%

Notes:

- (1) Non-executive Director of the Company
- (2) Executive Director of the Company
- (3) No more than two-thirds of the options are exercisable within one year from 23 January 2008 to 22 January 2009, and the remaining options are exercisable thereafter up to 22 January 2012.

On 28 June 2007, the Company has passed a resolution for approving the adoption of the new share option scheme (the "Share Option Scheme adopted on 28 June 2007") and the termination of the existing share option scheme adopted on 26 August 2002 (the "Share Option Scheme adopted on 26 August 2002"). Options (to the extent not already exercised) granted prior to such termination shall continue to be valid and (subject to the vesting schedule) exercisable in accordance with the Share Option Scheme adopted on 26 August 2002.

At 30 June 2007, no option has been granted under the Share Option Scheme adopted on 28 June 2007.

Disclosure of Interests

Directors' Interests in the Shares

As at 30 June 2007, save as disclosed under the section headed "The Share Option Scheme and Its Granting", none of the directors or chief executives of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (i) had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executives were taken or deemed to have under such provisions of the SFO) or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed under the heading "The Share Option Scheme and Its Granting", at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

For details of the share options granted to the directors, please refer to the section titled "The Share Option Scheme and Its Granting".

Substantial Shareholders' Interests in the Shares and Underlying Shares

As at 30 June 2007, the following persons (other than directors and chief executives of the Company) had interests or a short position in the shares and underlying shares of the Company which were recorded in the register of interests required to be maintained by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Long Positions		Short Positions	
	Number of shares involved	Approximate percentage of shareholding	Number of shares involved	Approximate percentage of shareholding
Sinochem Hong Kong	4,270,453,301 <i>(Note 1)</i>	73.51%	–	–
Sinochem Corporation <i>(Note 2)</i>	4,270,453,301	73.51%	–	–
PotashCorp	4,270,453,301 <i>(Note 3)</i>	73.51%	–	–

Notes:

- (1) The number of ordinary shares consists of (a) 3,108,863,335 ordinary shares owned by Sinochem Hong Kong and (b) 1,161,589,966 ordinary shares owned by PotashCorp in which Sinochem Hong Kong is deemed to have an interest under the provisions of the SFO.
- (2) Sinochem Corporation is taken to be interested in the ordinary shares of the Company in which Sinochem Hong Kong, its wholly-owned subsidiary, holds an interest respectively.
- (3) The number specified consists of (a) 1,161,589,966 ordinary shares owned by PotashCorp; (b) 3,108,863,335 ordinary shares owned by Sinochem Hong Kong in which PotashCorp is deemed to have an interest under sections 317 and 318 of the SFO.

Other Information

Disclosure of Interests (Cont'd)

Substantial Shareholders' Interests in the Shares and Underlying Shares (Cont'd)

Apart from the aforesaid, as at 30 June 2007, other than directors and chief executives of the Company, the Company had not been notified of any interests and short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

Review by Audit Committee

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors, namely, Mr. Tse Hau Yin, Aloysius, Dr. Tang Tin Sek and Mr. Ko Ming Tung, Edward, with Mr. Tse Hau Yin, Aloysius being the chairman. The Audit Committee, together with the Company's management, has reviewed the interim report of the Group for the six months ended 30 June 2007 and the accounting principles and practices adopted by the Group.

Compliance with the Code on Corporate Governance Practices

During the six months ended 30 June 2007, the Company has complied with all the provisions set out in the Code on Corporate Governance Practices.

Compliance with the Model Code For Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all directors, and the directors have confirmed that they had complied with the required standards set out in the Model Code for the period from 1 January 2007 to 30 June 2007.

In addition, the Company has also formulated its own code of conduct for securities transactions by the employees of the Company and has required all the employees to comply with the required standards of the SFO and the Listing Rules.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the period from 1 January 2007 to 30 June 2007.