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

ANNUAL REPORT 2008

CONTENTS

Company Profile and Corporate Information

Company Profile

Sinofert Holdings Limited (the "Company", which succeeded Sinochem Hong Kong Holdings Limited in December 2006) successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries (collectively the "Fertilizer Group") in July 2005, and became a listed company on The Stock Exchange of Hong Kong Limited. It is now a comprehensive fertilizer enterprise centering on distribution services and vertically integrating production and network distribution.

Major businesses of the Company and its subsidiaries (the "Group") include the production, import, export, distribution, wholesale and retail of fertilizer raw materials and products, as well as research and development and services in the field of fertilizer-related business and products.

According to the turnover of 2008, the Group is:

- The largest fertilizer distributor in China,
- The largest supplier of imported fertilizers in China, and
- One of the largest fertilizer manufacturers in China.

The Group's competitive strengths are mainly reflected in:

- Its business model of centering on distribution services and integrating production, supply and sales for synergic development,
- The largest self-owned and self-run fertilizer distribution and sales network in China,
- Its abilities to produce and market the most complete varieties of fertilizer products, including nitrogen, phosphate, potash and compound fertilizers to the customers,
- Its strategic alliances with major international suppliers for the exclusive distribution and sales of their products in China, and
- Its complete agrichemical services system directly reaching the farmers.

Mission of the Group: "Based in China to deploy fertilizer resources from the global markets to serve the needs of the country's food security and agricultural production". The Group constantly aspires to achieve sustained, stable and rapid growth, to deliver value and returns to the shareholders, and to commit to social responsibilities.

The ultimate controlling shareholder of the Company is Sinochem Corporation, which is one of China's earliest qualifiers of Fortune Global 500 and was selected for the 18th times, ranking the 257th in 2008. The second largest shareholder of the Company is Potash Corporation of Saskatchewan Inc., which is the largest potash producer in the world.

Corporate Information

Board of Directors

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
Dr. TANG Tin Sek
Mr. TSE Hau Yin, Aloysius

Members of Committees

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
Dr. Stephen Francis DOWDLE
Mr. TSE Hau Yin, Aloysius
Ms. CHEN Yi Qing

Nomination Committee

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

Chief Financial Officer

Mr. ZHANG Bao Hong

Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

Company Secretary

Mr. Navin AGGARWAL

Auditors

Deloitte Touche Tohmatsu

Legal Advisers

K&L Gates
Latham & Watkins

Principal Bankers

Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Bank of Tokyo-Mitsubishi
Rabobank International

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

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

Company Profile and Corporate Information

Share Registrars and Transfer Offices

Bermuda (Principal office)

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

Hong Kong (Branch)

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

Company Website

www.sinofert.com.hk

Share Listing

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited
Stock Code: 297

Investor Relations

Hong Kong

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Financial Highlights

(RMB'000 except for sales volume and EPS)

	2008	2007 (restated)
Sales volume *(10,000 tons)*	**1,622**	1,502
Turnover	**45,392,885**	28,381,689
Gross profit	**3,401,370**	2,740,610
Profit before tax	**2,084,237**	978,284
Net profit *(Note 1)*	**1,912,555**	641,142
EPS (RMB/share)	**0.2739**	0.1069
Return on Equity	**13.71%**	8.54%
Debt-to-Equity Ratio *(Note 2)*	**57.89%**	37.39%

Note 1: Excluding the change in the fair value of derivative component of the convertible loan notes, net profit for the years ended 31 December 2008 and 2007 was RMB1,749 million and RMB1,355 million respectively.

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


样品标签
复合肥料
多彩系列产品

Chairman's Statement

Dear Shareholders:

In the unforgettable year of 2008, the Group overcame tremendous challenges caused by high volatility of the fertilizer market and the financial crisis, and achieved new breakthroughs in strategic growth and excellent business results thanks to the support of all the shareholders. Hereby I would like to present to you the annual results of the Group for the year ended 31 December 2008.

In 2008, the Group continued to carry forward the strategy of "centering on marketing and distribution and expanding into both production and network distribution". Sales volume for the year increased by 7.94% to 16.22 million tons over that in 2007; turnover reached RMB45,393 million, up by 59.94%; net profit attributable to shareholders rose to RMB1,913 million, up by 198.30%; and earnings per share was RMB0.2739, up by 156.30%.

In consideration of the overall financial situation, cash-flow and future business developments of the Group, the Board of Directors of the Company (the "Board") proposes the payment of a final dividend of HK$0.0464 per share (approximately RMB0.0409 per share) for the financial year ended 31 December 2008, which is 68.12% more than that for 2007.

In 2008, the Group successfully completed the acquisitions of Jilin Fertilizer and Pesticide Group Co. Ltd (currently known as "Sinochem Jilin Changshan Chemical Co. Ltd") and Shandong Deqilong Chemical Industry Company Limited (currently known as "Sinochem Pingyuan Chemical Co. Ltd"), and the acquisitions of equity interest in Qinghai Salt Lake Potash Co., Ltd ("Qinghai Salt Lake Potash"), Tianji Sinochem Gaoping Chemical Engineering Company Ltd ("Tianji Sinochem Gaoping") and Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong") held by Sinochem Corporation. This has greatly strengthened the Company's industrial base and production capacity. As of 31 December 2008, total fertilizer production capacity of the Group's subsidiaries and affiliated production enterprises increased to 10.16 million tons, making the Group the largest fertilizer producer in China.

The Group continued to strengthen the strategic cooperation with major international fertilizer suppliers, and consolidated our market position as the largest fertilizer importer in China, with potash import by the Group accounting for more than half of the national total import. In the year, the Group further enlarged the supply system of domestically produced fertilizers and improved our ability for supply service. The sales volume of domestically produced fertilizers increased to 11.33 million tons, up by 33.74% over the corresponding period of last year, and accounting for 69.85% of the total sales volume.

The Group continued to push ahead the strategy of "building distribution centers in agricultural counties", and the number of distribution centers expanded to 2,010 as of 31 December 2008. The Group's distribution network has almost completed nationwide coverage, covering over 90% of the country's total arable land area. With improved services for the end-users, the sales volume of fertilizers through the distribution network increased to 11.33 million tons, up by 15.77% year on year. The customer base of the distribution network was further strengthened, with township-level customers making up over 80% of the total customer base. In addition, the operations of the distribution network have been further standardized which improved the operational quality and effectiveness.

The Group also endeavored to fulfill its social responsibilities in terms of energy saving, ecological and environmental protection, and organising activities for the public welfare of the farmers. Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd ("Sinochem Fuling") realized quasi-zero waste water emission and set up an example for "green chemical production." The Group established a joint venture, Yara-Sinochem Environmental Protection Co., Ltd, with Yara International ASA to develop an environmentally friendly chemical industry. In the wake of the snow-storm and the catastrophic earthquake, the Group donated both in kind and in cash to the people and enterprises in the disaster-stricken areas. In addition, the Group carried out various agrichemical workshops and setup model villages to promote scientific fertilization among the farmers, further enhancing the social responsibility model of the Company.

Working to maximize shareholders' value, the Board has continuously improved corporate governance to bring into place a highly effective, standardized and rational governance mechanism for scientific decision making. In compliance with the Code on Corporate Governance Practices as required by The Stock Exchange of Hong Kong Limited, the Company held four regular meetings of the Board in 2008, at which the annual report, interim report, dividend policy, corporate development strategy and other issues were reviewed and approved. Meanwhile, at other meetings, the Board also examined other important matters such as connected transactions. The Audit Committee, Remuneration Committee and Nomination Committee have also exercised their rights delegated by the Board and fulfilled their obligations in their respective works of enhancing internal control, optimizing remuneration and incentives programs and improving the governance structure of the Company.

At present, the financial crisis continues to widen and deepen the impact on the global economy. The Chinese government has adopted a series of positive economic stimulus plans, and in particular, initiated more favourable policies to spur the rural sector. This year, the central government plans to allocate as much as RMB716.1 billion to the rural sector, which is RMB120.6 billion more than the previous year, or up by 20% year on year. In addition, the government has continuously raised the minimum purchase prices for grains in the past few years. All these measures have helped to bolster the income of the farmers and the utilization efficiency of farming land. Consequently, the trend of scale farming and intensive farming has maintained a high-momentum.

At the same time, population in China is still increasing, and food consumption pattern is diversifying. The demand for grains is growing at a steady pace, which boosts the continuous increase in fertilizer consumption. In 2009, China will provide a total of RMB123 billion in various rural subsidies for the farmers, which is a rise of about 20% over last year. In particular, the increase in direct subsidy for agricultural inputs will encourage more fertilizer application. From the viewpoint of fertilizer industry, the relaxing of fertilizer pricing control and the reduction of the overall export taxes of fertilizers by the government have created a more favorable environment for the fertilizer industry.

We believe there are more opportunities than challenges ahead of us. In 2009, the Group will continue to push forward the strategy of "centering on marketing and distribution and expanding into both production and network distribution" for synergic growth. We will further optimize internal control, consolidate our industrial base, improve the supply systems, enhance the quality of our distribution network, expand our market share, and strive to fulfill our business goals. The Group is committed to creating higher returns for the shareholders and wealth for society, and playing an important role in ensuring food security of the country.

On behalf of the Board, I would also like to take this opportunity to extend our heartfelt appreciations to the shareholders, the management and all the employees, as well as our customers and friends who have contributed to the growth of the Group. We hope to have continuous support from our shareholders, and that the Sinofert Team will keep going ahead and overcoming all the difficulties to achieve ever better results.

Liu De Shu
Chairman of the Board

Hong Kong, 24 March 2009

The year 2008 witnessed unprecedented fluctuations in global fertilizer markets unseen over the past decade. From the beginning of the year, fertilizer prices climbed higher and higher as stimulated by the soaring cost of petroleum, natural gas and sulphur as well as market demand. Urea prices moved from US$390 per ton in January to the highest level of US$820 per ton in August, up by over 110%; and during the same period, the prices of diammonium phosphate ("DAP") also soared to US$1,200 per ton from US$600 per ton, up by 100%. However, by September, fertilizer prices dived under the impact of the financial crisis. By the end of 2008, urea prices plunged to as low as US$210 per ton, and DAP prices to US$380 per ton, which were at the same level as in the beginning of 2007 when this round of price hike started. It was the same scenario in the Chinese domestic fertilizer market. Urea prices rose from RMB1,850 per ton in the beginning of the year to RMB2,600 per ton in August and dropped to RMB1,600 per ton by the end of the year, and DAP prices surging from RMB3,800 per ton to RMB5,000 per ton and down to RMB2,800 per ton by the end of the year. With such sharp fluctuations in price, market demand also slumped. The fertilizer industry was challenged by unprecedented difficulties.

In 2008, the Group successfully overcame the difficulties caused by changeable market situations and deteriorating business environment through adopting positive and effective countermeasures and readjusting operation strategies in a timely manner. Under the correct leadership of the Board of Directors, the Group made great endeavors to stabilize the market and minimize business risks, and achieved strategic breakthroughs and record high business results.

Financial Highlights

In 2008, the Group's turnover rose to RMB45,393 million, up by 59.94% year on year; net profit attributable to shareholders surged by 198.30% to RMB1,913 million, and earnings per share was up by 156.30% to RMB0.2739.

Product Operations

In 2008, the Group's sales volume increased by 7.94% year on year to 16.22 million tons, which had further consolidated the Group's market position as the largest fertilizer distributor and service provider in China.

Potash Operations: Coping with the adverse situation of a US$400 unit price hike for imported potash fertilizers and slumping potash market demand, the Company realized potash sales of 4.03 million tons, which accounted for over 55% of the potash market share in China. The Company's leading position was further strengthened. Meanwhile, by providing tailor-made product mix to better serve the needs of the customers, the Company's potash operations also promoted the sales of nitrogen, phosphate and compound fertilizers.

Nitrogen Operations: The Group has established a stable marketing model by capitalizing on the synergic effect of alliances with suppliers, the expansion of self-owned production capacity and the advantages of the distribution network. Sales volume of nitrogen fertilizers rose by 29.04% year on year to 6.0 million tons. Meanwhile, the expansion of ammonium chloride has contributed to a new growth segment for the nitrogen business.

Phosphate and Compound Fertilizer Operations: By expanding the base of core suppliers and the base of township-level customers and industrial end-users, the Group's phosphate and compound fertilizer business volume and market influence were both improved. The sales volume of phosphate fertilizers and compound fertilizers reached 2.94 million tons and 2.53 million tons, up by 35.50% and 30.09% year on year, respectively.

Sulphur Operations: The Group seized the good opportunities when sulphur prices skyrocketed in the international market during the first half of 2008 and ensured product supply. During the second half of the year, the Group adopted precautious measures well in advance and successfully avoided the risks caused by a plunging sulphur market.

Pesticide Operations: The business model of pesticide operations was shifted from direct wholesaling to network distribution, which had proved to be a success. Turnover of pesticide in 2008 increased by 39.21% year on year to RMB149 million, which shows that the integration business model of various agricultural inputs is viable and competitive.

Production

In 2008, the Group successfully completed the acquisitions of Sinochem Jilin Changshan Chemical Co. Ltd ("Sinochem Changshan") and Sinochem Pingyuan Chemical Co. Ltd ("Sinochem Pingyuan"), and the purchase of equity interest in Qinghai Salt Lake Potash, Tianji-Sinochem and Sinochem Shandong held by Sinochem Corporation, and set up the joint venture Yara-Sinochem Environmental Protection Co., Ltd with Yara International ASA. By the end of 2008, total fertilizer production capacity of the Group's subsidiaries and affiliated production enterprises increased to 10.16 million tons, making the Group the largest fertilizer producer in China. This has greatly strengthened the Company's industry position and influence.

In 2008, the Group also made continuous progress in energy saving and ecological protection. By initiating lean management among the subsidiary production enterprises, the Group devoted huge efforts to save energy, reduce emissions, and lower energy consumption. Through the efforts made in the past few years, Sinochem Fuling achieved quasi-zero waste water emission, which was widely reported by 13 major mass media organizations as an example for "green chemical production" in the fertilizer industry.

Network Distribution

In 2008, the Group continued to push ahead the strategy of "building distribution centers in agricultural counties," and the number of distribution centers expanded to 2,010, with 338 newly added. The Company's nationwide distribution network has been basically in shape, with its service capabilities significantly enhanced.

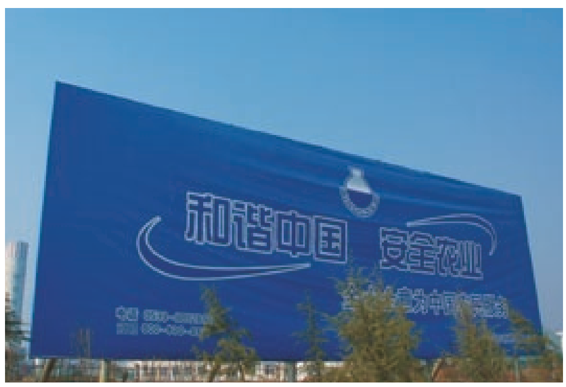
In addition, huge efforts were made to standardize the operation procedures of the distribution network for improved operating quality and efficiency by clearly defining and quantifying the six major functions of the distribution network. In this work top priority was given to "promote sales, enhance brand image and create value." As a result, the sales volume of fertilizers through the distribution network increased to 11.33 million tons, up by 15.77% year on year. The customer base of the distribution network was also consolidated and the customer structure optimized. Among the 32,000 customers having trading relations with the Group during the year, the ratio of township-level customers increased to 82% from 77% at the beginning of the year.

Internal Control and Management

The Group has always given top priority to the protection of shareholders' asset value. Before the outbreak of global financial crisis, the Group had completed risk management system accreditation in May 2008, including the assessment on the operation effectiveness of the risk management culture, internal control system, and various work flows and business operating processes. The Group has made further improvement on risk management mechanism, laying a solid foundation against global financial crisis. In the meantime, the Group has adhered to a sound financial policy, keeping balanced financing structure and stable assets liabilities ratio in the fast assets growing period. The Group has established strategic cooperation with Postal Savings Bank of China, which has wide range of rural savings outlets, and fully utilized different financing channels to meet capital requirements. It is to be mentioned that, facing the fast changes of government policy and market conditions, the Group has made timely adjustment on its financing strategy and effectively reduced capital cost.

Corporate Social Responsibility

In 2008, the Group carried out many new activities in the respect of fulfilling corporate social responsibility. In the same year, the Group held over 4,200 agrichemical service activities, including fertilization skill lectures, field instruction, etc. The Group has set up more than 1,000 "Sinofert Scientific Fertilization Pilot Villages". In particular, the Group, together with the Ministry of Agriculture, jointly built 114 "model villages" in seven southern provinces and held "workshops to guide the farmers for scientific fertilization" in 128 counties of ten provinces including Shandong and Henan.



In the struggle of fighting against serious natural disasters, the Group actively donated fertilizers and money to Guangxi and Hubei which were hit by frosting weather and heavy snowstorms, and to the Sichuan earthquake victims and affected companies. In addition, the Group co-organized the large public benefit activity of "Poverty Alleviation Program around Old Revolutionary Base Areas" with poverty alleviation office of the State Council, leading more than ten enterprises to donate a large amount of fertilizers, seeds, medicines and books to old revolutionary base areas in ten provinces.

In 2008, the Group compiled and released its first Corporate Social Responsibility Report, presenting the social responsibilities the Group undertakes and soliciting public scrutiny. This report is the first of its kind ever released in China's agricultural inputs industry.

Strategic Planning

In later 2008, facing the deteriorating economy affected by the global financial crisis, the Group successfully carried out the yearly revision work of the Three-Year (2009-2011) Strategic Development Plan (the "Plan") on the basis of a thorough analysis of the trend of China's agriculture development, industrial opportunities and summarization of the strategic transformation experiences over the past ten years.

According to the Plan, the Group will continue to push forward the strategy of "centering on marketing and distribution and expanding into both production and network distribution", to push forward "the transformation of the Group from being distribution service-oriented to industrial service-oriented". The Group will further consolidate its production foundation, to strengthen subsidiary production enterprises integration, cooperation and operation management, and to improve profit contribution by the production sector. The Group will constantly improve distribution network layout and push forward the standardization work so as to strengthen the competitive edge of the network and to achieve the goal of "improving services for increased sales and enhancing brand image for value added". The Group will also continue to enhance internal control and management system under the guidance of the COSO framework to ensure safe operations.

Outlook

While the ongoing financial crisis is still exerting a deepening impact on the economy, the basis for and long-term trend of the Chinese economy maintaining stable and relatively fast growth has not changed. The next few years will be an important period for the Group to grasp opportunities for sustained development. The Chinese government has attached utmost top priority to the agricultural sector, and constantly adopted favorable policies to support agriculture. There are many positive factors that will contribute to a favorable macro-environment for the long-term development of the fertilizer industry and the Group, such as increasing fiscal input into the rural sector by the central government, the sustainable growth of agriculture, the progress in the building of socialist new countryside, rising farmers' income level, and enthusiasm of the farmers in grain planting. The state adopted policies to allow the exchanges of rural land to promote farming of scale. This will provide an important opportunity for the Group which boasts a nationwide distribution network to further expand our market share. In addition, the state adopted a series of policies to promote the sustainable growth of the fertilizer industry, relaxed controls on fertilizer pricing and lowered the export taxes of fertilizer products. All these measures have helped to strengthen the market mechanism of the fertilizer industry, which will benefit the Group in bringing into full play its comprehensive advantages and further improving its potential for sustainable growth.

In 2009, the Group will, under the leadership of the Board, continue to work for maximizing shareholders' value, and keep forging ahead along the strategy of "centering on marketing and distribution and expanding into both production and network distribution." We will strive to consolidate our industrial base, enhance the competitiveness of the distribution network, and do our best in operations, internal control and lean management. We are committed to fulfilling our business goals, bringing about higher returns for the shareholders, and struggling for the course of building the Company into China's largest, and a globally leading, comprehensive service provider of agricultural inputs.


中化山东肥业
SINOCHEM SHANDONG

For the twelve months ended 31 December 2008, sales volume of the Group reached 16.22 million tons, and turnover was RMB45,393 million, representing an increase of 7.94% and 59.94%, respectively, over the corresponding period of 2007.

For the twelve months ended 31 December 2008, gross profit of the Group reached RMB3,401 million and net profit attributable to shareholders was RMB1,913 million, representing an increase of 24.11% and 198.30%, respectively, over the corresponding period of 2007. Excluding the change in fair value of derivative component of the convertible loan notes, net profit attributable to shareholders in 2008 would be RMB1,749 million, which represented a year-on-year increase of 29.12%.

I. Operation Scale

1. Sales Volume

For the twelve months ended 31 December 2008, sales volume of the Group reached 16.22 million tons, up by 7.94% over the corresponding period of 2007. Due to the decrease in the import volume of potash fertilizer in 2008, the sales volume of imported fertilizers fell by 29.86% year on year to 4.17 million tons in 2008. The sales volume of domestic fertilizers was 11.33 million tons, up by 33.74% as compared with the same period of last year.

In terms of product structure, due to the decrease of imported potash, sales volume of potash suffered a 28.72% year-on-year decrease, but still accounted for 55% of the imported potash market in China. At the same time, the Group strengthened its domestic fertilizer business in 2008. The acquisitions of Sinochem Pingyuan and Sinochem Changshan further guaranteed supply for the downstream distribution and considerably enhanced its influence in some geographic markets. Sales volume of nitrogen fertilizers was up by 29.04%, the market share and influence of which were further enhanced. By relying on the phosphate production base, the Group seized the market opportunities brought by the tight supply in the international market in the first half of 2008 to expand its exports while in the second half when the market slumped, the Group maintained a rather high utilization rate of the production facilities by making use of its advantage in the distribution network. Sales volume of phosphate fertilizers and compound fertilizers increased by 35.50% and 30.09% year on year, respectively.

2. Turnover

For the twelve months ended 31 December 2008, turnover of the Group reached RMB45,393 million, up by RMB17,011 million over the corresponding period of 2007, which represented an increase of 59.94% and was higher than the 7.94% increase of sales volume. This was mainly attributable to the surge of prices in fertilizer market in 2008. The Group's average selling price was 48.18% higher compared with the same period of last year.

Table 1:

	For the twelve months ended 31 December			
	2008		2007	
	Turnover	**As percentage of total turnover**	Turnover	As percentage of total turnover
	RMB'000		*RMB'000*	
Potash fertilizers	**16,124,676**	**35.52%**	11,914,828	41.98%
Nitrogen fertilizers	**10,727,916**	**23.63%**	6,872,858	24.22%
Compound fertilizers	**7,557,203**	**16.65%**	3,979,269	14.02%
Phosphate fertilizers	**8,565,045**	**18.87%**	4,525,234	15.94%
Others	**2,418,045**	**5.33%**	1,089,500	3.84%
Total	**45,392,885**	**100.00%**	28,381,689	100.00%

II. Profit

1. Gross profit

For the twelve months ended 31 December 2008, gross profit of the Group was RMB3,401 million, representing an increase of RMB661 million or 24.11% year on year.

The Group adopted different strategies for different products:

(1) The potash business continued to enjoy a stable profit margin because of the stable supply for the domestic market with carryover inventories from the previous year, and increased sales of agricultural-use potash fertilizers to grass-roots' level customers and direct sales to industrial end-users;

(2) By consolidating the core supplier system for sufficient product supply and sales volume, and speeding up turnover as well as adopting specific sales strategies to different regional markets, the Group's nitrogen business achieved a higher profit margin;

(3) Since the second half of 2008, the whole phosphate and compound fertilizer industry in China was adversely affected by the plummeting fertilizer prices, and suffered heavy losses. The profit margin of the Group's phosphate and compound fertilizer business also declined considerably compared with the same period of the previous year. Thanks to the Group's business strategy of "centering on marketing and distribution and expanding into both production and network distribution", the sales volume of phosphate and compound fertilizers through the distribution network increased, which in turn helped to lower production cost by maintaining high operating capacity of the Group's upstream production enterprises. By vigorously reducing inventory level, and providing inventory provisions at the end of the year, such a negative effect was basically minimized in the year 2008.

In general, the Group's profitability continued to maintain at a stable level.

2. Share of results of jointly controlled entities, share of results of associates and discount on acquisition of a subsidiary

Share of results of jointly controlled entities: For the twelve months ended 31 December 2008, the share of results of jointly controlled entities of the Group was RMB18 million, which was mainly from the production enterprises such as Hubei Sinochem Orient Fertilizer Co., Ltd, Guiyang Sinochem Kailin Fertilizer Co., Ltd, Yunnan Three Circle-Sinochem-Cargill Fertilizer Co., Ltd and Guansu Wengfu Chemical Co., Ltd. This amount was RMB36 million less, or down by 66.67% than that of RMB54 million for the year ended 31 December 2007. The major reason was a sharp fall in the prices of phosphate and compound fertilizers caused by the crash of international sulphur market, which resulted in heavy losses of the production enterprises during the fourth quarter. Consequently, the profit contributed by the production enterprises to the Group for the year shrank.

Share of results of associates: For the twelve months ended 31 December 2008, the share of results of associates of the Group amounted to RMB104 million, which was mainly from Qinghai Salt Lake Potash.

Discount on acquisition of a subsidiary: For the twelve months ended 31 December 2008, a discount on acquisition of a subsidiary of the Group of RMB214 million was recorded as a result of the acquisition of Sinochem Changshan in the second half of 2008. Due to the impact of debt restructuring and land revaluation, the discount on acquisition of RMB214 million was resulted.

3. Income tax expense

For the twelve months ended 31 December 2008, income tax expense of the Group was RMB176 million, and the effective tax rate was 8.46%. Excluding the change in fair value of derivative component of convertible loan notes, the effective tax rate for 2008 was 9.18%, while the effective tax rate for 2007 was 18.70%. The reduction of effective tax rate in 2008 was mainly attributable to the decrease of 8 percentage points in PRC enterprise income tax rate from 33% for the year of 2007 to 25% for the year of 2008. In addition, there was an increase of RMB282 million of non-assessable income in 2008 arising from share of results of associates, share of results of jointly controlled entities and a discount on acquisition of a subsidiary.

The subsidiaries of the Group were registered in China mainland, Macao and Hong Kong, respectively, where profit tax rates vary. Among them, the tax rate of China mainland is 25%, the Group's profit derived from Macao is exempted from profit tax, while Hong Kong profits tax rate is 16.5%. The Company strictly complies with the taxation laws of the three jurisdictions and pays taxes accordingly.

4. Net profit attributable to shareholders and net profit margin

For the twelve months ended 31 December 2008, the Group's net profit attributable to shareholders reached RMB1,913 million, up by 198.30% or RMB1,271 million more than that in 2007. This was mainly attributable to the increase in sales volume by 7.94% and the increase in gross profit by RMB661 million. In addition, the change in fair value of derivative component of convertible loan notes for the twelve months ended 31 December 2008 increased the Company's profit during the reporting period by RMB163 million, while the same factor for the twelve months ended 31 December 2007 reduced the Company's profit by RMB714 million in 2007.

For the twelve months ended 31 December 2008, the net profit margin was 4.21%, which represented stable profitability of the Group.

III. Expenditures

Selling and distribution expenses for the twelve months ended 31 December 2008 was RMB688 million, up by RMB102 million or 17.30% over that of RMB586 million in 2007. Such an increase was mainly attributed to the proportionate increase in logistics costs, such as costs for transportation and warehousing, as a result of increase in sales volume in 2008.

Administrative expenses for the twelve months ended 31 December 2008 was RMB544 million, up by RMB268 million or 97.09% over that of RMB276 million for the corresponding period of 2007. This was mainly attributable to an increase of RMB128 million in administrative expense incurred as a result of the acquisition of Sinochem Pingyuan and Sinochem Changshan during the period, and the increase in consultancy fees and stamp duties of RMB46 million for those acquisitions in 2008 as well as increases in staff expenses and rental expenses as a result of expansion of the distribution network.

Finance costs for the twelve months ended 31 December 2008 was RMB295 million, which was close to the RMB280 million for the corresponding period of 2007. In 2008, the increase in sales volume actually led to an increase in scale of financing. However, the Group has been able to effectively minimize the finance costs by adjusting financing strategies from time to time according to market and policy changes. As a result, the finance cost in 2008 was basically the same as that in 2007.

IV. Other Expenses

For the twelve months ended 31 December 2008, the Group's other expenses amounted to RMB592 million, which represented an increase of RMB581 million over that of RMB11 million for the corresponding period of 2007. During the second half of 2008, the prices of fertilizers, in general, fell sharply under the impact of the financial crisis. An adjustment of RMB485 million in provisions for impairment of inventories was made for the year ended 31 December 2008 according to requirements of applicable accounting principles.

V. Cash Flow

Cash inflow of the Group for the twelve months ended 31 December 2008 was RMB40 million, which includes:

1. A cash outflow from operating activities of RMB1,853 million mainly resulted from the increase in inventories;

2. A cash outflow from investment activities of RMB5,996 million, including RMB4,897 million for acquisitions of associates, RMB613 million for purchases of property, plants and equipment, RMB619 million for acquisitions of subsidiaries and available-for-sale investments, RMB182 million for investment in a jointly controlled entity, RMB178 million from dividend income, RMB33 million from interest income and RMB103 million from disposal of a subsidiary and available-for-sale investments;

3. A cash inflow from financing activities of RMB7,889 million, including net proceeds of RMB4,660 million received from issue of new shares, RMB11,024 million from new bank borrowings, RMB24 million from government subsidy, RMB7,341 million for repayments of bank loans, RMB287 million in interest expense, and RMB190 million in dividend payment.

VI. Inventory Turnover

The inventory balance of the Group as at 31 December 2008 was RMB11,570 million, increasing by RMB4,865 million or 72.54% from RMB6,705 million as at 31 December 2007, mainly due to increased inventory volume and unit cost.

Inventory turnover day[(note)] was 78 days, which remained the same as that of 2007.

In terms of inventory structure, potash inventory accounted for 65.88% of the total. As potash fertilizer is a core commodity of the Group and China is lacking in potash resources, it is of great significance for the Group to keep a relatively large-scale potash inventory for ensuring domestic supply and profitability of the Group.

Note: 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 360 days.

VII. Trade and Bills Receivables

The balance of the Group's trade and bills receivables as at 31 December 2008 was RMB2,229 million, down by RMB1,019 million from that of RMB3,248 million as at 31 December 2007. This was mainly because of the decrease of bills discounted to banks.

As the 59.94% increase in turnover over the corresponding period in 2007 was higher than the growth rate of the balance of the trade and bills receivables, trade and bills receivables turnover day[(note)] decreased from 15 days in 2007 to 10 days in 2008.

Note: Calculated on the basis of average trade and bills receivables balance excluding bills discounted to banks as at the end of the reporting period divided by turnover, and multiplied by 360 days.

VIII. Interests in Jointly Controlled Entities

As at 31 December 2008, the balance of the Group's interests in jointly controlled entities was RMB793 million, increasing by 37.14% over that of RMB578 million as at 31 December 2007. This was mainly caused by:

1. an increase in investment of RMB209 million in Tianji Sinochem Gaoping;

2. an increase in investment of RMB32 million in Gansu Wengfu Chemical Co., Ltd.;

3. an increase of RMB18 million of interests arising from applying the equity method of accounting;

4. the reduction in value of investment in Yunan Three Circle-Sinochem-Cargill Fertilizer Co., Ltd. upon receipt of dividend payment of RMB35 million; and

5. a decrease of RMB9 million of investment caused by the disposal of Beijing Sinochem Tianji Trading Co., Ltd. and transfer of Hubei Sinochem Orient Fertilizer Co., Ltd. from a jointly controlled entity to a subsidiary.

IX. Interests in Associates

The balance of the Group's interests in associates as at 31 December 2008 was RMB7,063 million, which was mainly attributed to:

1. RMB6,739 million paid for the acquisition of the 18.49% equity in Qinghai Salt Lake Potash, RMB210 million arising from revaluation of the consideration on the completion date; RMB170 million of dividends for the year 2007 received from Qinghai Salt Lake Potash, and RMB104 million of investment returns generated from the completion date up to 31 December 2008.

2. RMB180 million paid for acquisition of 30% equity interests in Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. by Sinochem Fuling.

X. Available-for-Sale Investments

As at 31 December 2008, the balance of the Group's available-for-sale investments was RMB502 million, while the figure as at 31 December 2007 was RMB1,178 million. The decrease of RMB676 million or 57.39% was mainly caused by:

1. the Group sold 10.22 million shares of Shandong Luxi Chemical Industry Co., Ltd. in March 2008, thus reducing RMB22 million of available-for-sale investments;

2. share depreciation of RMB679 million as a result of the revaluation of shares held by the Group as at 31 December 2008 in the listed companies including China XLX Fertiliser Ltd., Shandong Luxi Chemical Industry Co., Ltd., and Shandong Hualu Hengsheng Chemical Co., Ltd. based on their fair values and number of shares held by the Group as at 31 December 2008.

XI. Prepayments to Ultimate Holding Company

As at 31 December 2007, the balance of the Group's prepayments to ultimate holding company was RMB2,100 million, representing a 30% deposit of the consideration for acquisitions of equity interests in the three fertilizer enterprises from Sinochem Corporation, the ultimate holding company of the Company, in accordance with the relevant acquisition agreements. In 2008, the amount was transferred to interests in jointly controlled entities and interests in associates, respectively.

XII. Long and Short-Term Loans

As at 31 December 2008, the balance of the Group's long-term loans was RMB983 million, up by RMB290 million or 41.85% over that of RMB693 million as at 31 December 2007. This was mainly caused by Sinochem Fuling's expansion project (0.2 million ton ammonium and 0.2 million ton urea) and Sinochem Pingyuan's technical renovation project.

As at 31 December 2008, the balance of short-term loans was RMB7,536 million, up by RMB4,043 million as compared with RMB3,493 million as at 31 December 2007. This was mainly the result of increase in scale of sales volume and inventory in 2008, which boosted the demand for operating fund.

XIII. Trade and Bills Payables

As at 31 December 2008, the balance of the Group's trade and bills payables was RMB4,163 million, increasing by RMB2,088 million from that of RMB2,075 million as at 31 December 2007. This was mainly due to an increase in purchasing volume corresponding to the expansion of operations.

XIV. Convertible Loan Notes

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

For the year ended 31 December 2008, the notes with total face value of HK$288 million were settled, of which, face value of HK$278 million was converted into 74,371,652 ordinary shares of HK$0.1 par value per share of the Company; face value of HK$10 million was settled in cash, amounting to approximately HK$15 million (approximately RMB13 million). As at 31 December 2008, the total face value of outstanding loan notes was HK$620 million.

According to related accounting standards in Hong Kong, the Company appointed Jones Lang LaSalle Sallmanns Limited for an independent assessment on fair value of the outstanding convertible loan notes. According to the assessment result and relevant clauses of the convertible loan notes, the gain arising on settlement of convertible loan notes, the gain arising on change in fair value of derivative component of the convertible loan notes and the finance cost amortized to the convertible loan notes was RMB2 million, RMB163 million and RMB40 million, respectively, which were recorded in the consolidated income statement for the year.

XV. Other Financial Indicators

Basic earnings per share (EPS) for the twelve months ended 31 December 2008 was RMB0.2739, increasing by 156.30% over the corresponding period of 2007. Return on equity (ROE) for 2008 was 13.71%, up by 5.17 percentage points as compared with the same period of 2007. This was mainly attributable to the 198.30% increase in net profit attributable to shareholders as compared with the same period of last year.

Table 2:

	2008	2007
Profitability		
EPS (RMB) *(Note 1)*	**0.2739**	0.1069
Return on Equity *(Note 2)*	**13.71%**	8.54%

Note 1: Calculated on the basis of net profit attributable to the shareholders of the Company for the reporting period divided by weighted average number of shares for the reporting period.

Note 2: Calculated on the basis of net profit attributable to the shareholders of the Company for the reporting period divided by total equity as at the end of the reporting period.

As at 31 December 2008, current ratio was 1.07 and debt-to-equity ratio was 57.89%. Long-term and short-term liquidity remained at a stable and healthy level.

Table 3:

	2008	2007
Solvency		
Current ratio *(Note 1)*	**1.07**	1.46
Debt-to-equity ratio *(Note 2)*	**57.89%**	37.39%

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

Note 2: Calculated on the basis of interest-bearing debt divided by total equity as at the end of the reporting period (interest-bearing debt does not include discounted and not yet matured bills payables).

XVI. Liquidity and Financial Resources

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

As at 31 December 2008, cash and cash equivalents of the Group were RMB160 million, which was mainly denominated in Renminbi and United States dollars.

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

Table 4:

	As at 31 December 2008 ***RMB'000***	As at 31 December 2007 *RMB'000*
Secured	**346,841**	228,001
Unsecured	**8,173,078**	3,957,905
Total	**8,519,919**	4,185,906

Table 5:

	As at 31 December 2008 ***RMB'000***	As at 31 December 2007 *RMB'000*
Within one year	**7,536,557**	3,493,406
Within 2-5 years	**853,362**	612,500
Over 5 years	**130,000**	80,000
Total	**8,519,919**	4,185,906

Table 6:

	As at 31 December 2008 ***RMB'000***	As at 31 December 2007 *RMB'000*
Fixed interest rate	**5,079,805**	2,363,041
Floating interest rate	**3,440,114**	1,822,865
Total	**8,519,919**	4,185,906

As at 31 December 2008, certain property, plant and equipment and prepaid lease payments with carrying amount of RMB510 million and RMB43 million were pledged to secure bank facilities granted to the Group.

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

As at 31 December 2008, the Group had banking facilities of RMB17,537 million, including US$1,065 million and RMB10,258 million. The amount of banking facilities already used was US$607 million and RMB6,565 million and that of unused was US$458 million and RMB3,693 million.

XVII.Operation and Financial Risks

The Group's major operation risks include: uncertainties of the impact on the fertilizer industry resulting from the uncertainties of the upcoming controlling measures despite the announcement on policy reform in the fertilizer industry by the Chinese Government; price fluctuations of the fertilizer market; as well as operating uncertainties caused by governmental influence such as influence in the potash contract negotiations.

The Group's financial risks include: market risk, credit risk and liquidity risk.

Market risk

Market risk includes currency risk, interest rate risk and other price risk. Currency risk means unfavourable change in exchange rate that may have an impact on the Group's financial results and cash flow; interest rate risk means the unfavourable change in interest rate that may lead to changes in the fair value of fixed rate borrowings; and other price risk means the Group's risk relating to value of equity investments, which mainly derived from investments in equity securities and financial derivatives.

Most of the Group's assets, liabilities and transactions are denominated in Renminbi, US dollars and Hong Kong dollars. The exchange rates of Renminbi against US dollars and Hong Kong dollars are relatively stable. The fluctuations of foreign currencies did not have a significant impact on the performance of the Group. In addition, the management kept monitoring and controlling the above risks so as to reduce any potential negative effect on the Group's financial performance.

Credit risk

The highest credit risk the Group confronted with was that the counterparties fail to perform their obligations in relation to each class of recognized financial assets, which have been confirmed and recorded in the consolidated balance sheet as at 31 December 2008. The Group has adequate monitoring procedures in respect of granting credit line, credit approval and other related aspects so as to ensure the timely follow-up of overdue debt so as to greatly reduce the credit risk.

Liquidity risk

In order to manage the liquidity risk, the management monitored and maintained sufficient cash and cash equivalent of the Group, raised funds to fulfill the operation requirements as necessary and maintained a stable cash flow of the Group. The management further monitored the application of bank borrowings.

XVIII.Contingent Liabilities

As at 31 December 2008, the Group had no material contingent liabilities.

XIX. Capital Commitment

Table 7:

	As at 31 December 2008 *RMB'000*	As at 31 December 2007 *RMB'000*
Assets under construction		
Contracted but not provided for	**602,041**	473,000
Authorized but not contracted for	**110,973**	428,786
Total	**713,014**	901,786

XX. Major Investments

As at 31 December 2008, the Group's major investments amounted to RMB5,779 million, among which:

1. RMB4,903 million was used for balance of 70% of consideration for acquisition of equity interests in three fertilizer enterprises from Sinochem Corporation, the ultimate holding company;

2. RMB695 million was used for acquisition of 75% of the equity interests in Sinochem Pingyuan;

3. RMB149 million was used to increase investment in Sinochem Changshan;

4. RMB32 million was used to increase investment in Gansu Wengfu Chemical Co., Ltd.

XXI. Human Resources Capital

As at 31 December 2008, the Group had about 11,100 full-time employees (including those employed by controlled entities), the remuneration of whom are determined with reference to market rates. The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options granted under the share option schemes of the Company. More details of the remuneration policy of the Group are set out in the "Corporate Governance Report" of this annual report from pages 43 to 44.

January 2008

With the resolution passed at the special general meeting held on 28 December 2007, the Company successfully placed approximately 714 million new shares at a price of HK$7.0 per share to our two major shareholders, namely, Sinochem Hong Kong (Group) Company Limited and PCS (Barbados) Investment Company Limited. Upon completion of the share placement, Sinochem Hong Kong (Group) Company Limited and PCS (Barbados) Investment Company Limited held 52.40% and 19.58% equity interest in the Company, respectively.

The newly built 100,000-ton per annum phosphoric acid plant and 240,000-ton per annum ammonium phosphate plant went into production at Gansu Wengfu Chemical Co, Ltd., a jointly controlled entity of the Group.

February 2008

The Group donated 100 tons of fertilizers to Macheng City of Hubei Province, helping the farmers there to recover from damages caused by snowstorms and to restore agricultural production.

The Group donated RMB1.0 million to the Supply and Marketing Cooperative of the Guangxi Zhuang Autonomous Region to help business organization to restore operations to normal and to ensure the supply of agricultural inputs in the region.

March 2008

The Company released its 2007 Annual Results Announcement.

Together with the General Administration of Quality Supervision, Inspection and Quarantine, the Group launched a nationwide campaign to promote “high-quality agricultural inputs” and fight against counterfeiting.

April 2008

The Group entered into an acquisition agreement with Jilin Provincial State-owned Assets Supervision and Administration Commission for the acquisition Jilin Fertilizer & Pesticide Group Co., Ltd. at nil consideration.

The Chinese joint potash negotiation team, which consisted of the Group and other enterprises, concluded the 2008 potash contract negotiations with Belarusian Potash Company (BPC) and reached an agreement under which the Free-on-board (FOB) price would increase by US$400 per ton.

Xinhua News Agency, People’s Daily, CCTV, China National Radio (CNR), China Chemical Industry News and other media organizations reported the efforts made by Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. in energy saving and emission reduction.

Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. won the bid for a state-level technological breakthrough project in phosphoric acid purification, which is categorized as a “National Science & Technology Supporting Program”.

May 2008

The Group together with the Ministry of Agriculture conducted “activities to guide scientific fertilization in 1,000 townships of 100 counties”, which was widely reported by the Xinhua News Agency, People’s Daily, CCTV, China National Radio (CNR), Farmers’ Daily and other media organizations.

Mr. Du Keping, the Chief Executive Officer of the Company, headed a team to attend the 76th annual meeting of the International Fertilizer Industry Association (IFA) held in Vienna. During the meeting, Mr. Du and the team met with different international fertilizer suppliers and traders to discuss mutual cooperation.

May 2008

In the wake of the massive 8.0-magnitude earthquake in Wenchuan County of Sichuan Province on 12 May 2008, the ultimate controlling shareholder of the Company, Sinochem Corporation, donated RMB47 million both in cash and in kind, and the second largest shareholder, Potash Corporation of Saskatchewan Inc. (PCS), donated US$1.0 million to the earthquake stricken areas. The Group donated RMB1.5 million to Sichuan Yingfeng Industrial Company Limited, which was seriously damaged by the earthquake, helping them rebuild their homes and restore production.

The Group completed the certification of risk management and conducted comprehensive evaluations on the efficiency of the establishing of the culture of risk management, the supporting system of internal control and various systems, processes and regulations.

June 2008

The Company convened the annual general meeting.

The Company released its 2007 Corporate Social Responsibility Report, which was the first report compiled by the Group and also the first of its kind ever released in China’s fertilizer industry.

The Group entered into an agreement with Pingyuan County Economic Development and Investment Corporation of Shandong Province on the restructuring of Shandong Deqilong Chemical Industry Co., Ltd. Upon completion of the acquisition, the Group holds 75% of its equity interest and renamed the company to Sinochem Pingyuan Chemical Co., Ltd.

The Group cooperated with the Norwegian company Yara International ASA for the establishment of Yara-Sinochem Environmental Protection Co., Ltd., which will develop an environment-friendly enterprise represented by DeNOx.

Chronicle of Events

June 2008

The Group approved after appraisal the 188 newly built distribution centers, bringing the total number of distribution centers to 1,860. The Group's distribution network covers the major agricultural counties in 26 provinces, reaching about 90% of China's total farming land, which further enlarged the competitive advantage of the Group's distribution network.

July 2008

The Group participated in the first bid for the "One-Million-Ton Phosphate Fertilizer Reserve Program" co-organized by the National Development and Reform Commission (NDRC) and the Ministry of Finance, and was awarded with 120,000 tons of phosphate fertilizer reserve task.

The Group, together with CCTV 7, hosted a series of activities with the theme of "Sinofert Caring about Agriculture, Rural Areas and Farmers and Trying to Lift the Old Revolutionary Base Areas out of Poverty" in more than 10 provinces such as Shandong, Jiangsu and Anhui. The Group invited some agricultural experts to help the farmers on the issues of breeding, planting, fertilization and crop disease prevention, in addition to donating both in kind (fertilizers) and in cash for the building of rural libraries. The Group actively carries out the social responsibility.

August 2008

The Group released its 2008 Interim Results announcement.

September 2008

Mr. Du Ke Ping, CEO of the Company, headed the Sinofert delegation and attended the TFI (The Fertilizer Institute) World Fertilizer Conference held in Seattle, USA. During the meeting, Mr. Du met with international fertilizer suppliers and traders to discuss on mutual cooperation.

October 2008

The Group entered into a strategic cooperation agreement with the Postal Savings Bank of China, under which the Bank would provide RMB10 billion credit facilities for the Group to further expand the synergic growth of its production and network distribution businesses.

November 2008

Sinofert was honored as one of the top ten "Most Competitive Hong Kong-Listed Chinese Companies" during the 6th Chinese Enterprises Competitiveness Annual Meeting co-sponsored by the Institute of Industrial Economics under the Chinese Academy of Social Sciences and China Business Journal.

December 2008

At the Third Session of the "Farmers' Favorite Brand Names" selection ceremony, the Company was cited with its "Sinochem" brand for three years in a row, which showed that the brand name of Sinochem had been well received and widely recognized by the farmers and local fertilizer retailers.

The Group participated in the bid for the "2009 Off-Season National Fertilizer Commercial Reserve Program" co-organized by the National Development and Reform Commission (NDRC) and the Ministry of Finance, and was awarded with 2.15 million tons of fertilizer reserve task. This reflected the leading position of the Group in the Chinese fertilizer industry.

The number of the Group's distribution centers and sales outlets reached 2,010, enabling the Group's nationwide distribution network to cover over 90% of the country's arable land and furthering sharpening the cutting edge of the Group in network distribution.

The total production capacity of the Group's subsidiaries and affiliated production enterprises increased to 10.16 million tons of fertilizers per annum, making the Group one of the largest fertilizer producers in China.

The Group entered into a financing agreement with China Construction Bank, which marked the number of the Group's partnership banks reaching 25. By enlarging credit lines with existing partnership banks such as Bank of China, Bank of Tokyo-Mitsubishi and Rabobank International as well as other new partnership banks, the banking facilities of the Group increased to RMB17.537 billion, which was able to meet the Group's capital need for its fast growth.

Directors

Mr. LIU De Shu – Chairman of the Board and Non-Executive Director

Mr. LIU De Shu, aged 56, joined the Company as the Chairman of the Board in April 2004. Mr. Liu graduated from Tsinghua University in the PRC in April 1979 and from China Europe International Business School with an EMBA in 1998. In March 1998, Mr. Liu was appointed to be the President and Chief Executive Officer of Sinochem Corporation, the immediate holding company of Sinochem Hong Kong (Group) Company Limited. Before joining Sinochem Corporation, he had been the deputy general manager, the general manager and the chairman of China National Machinery Import & Export Corporation. Mr. Liu holds other senior positions in several subsidiaries and joint venture companies of Sinochem Corporation, all of which are not publicly listed, namely the vice chairman of Dalian West Pacific Petrochemical Co., Ltd., the chairman of Lion Fund Management Ltd. and the director of Manulife-Sinochem Life Insurance Co. Ltd., China World Trade Center Co., Ltd and Commercial Aircraft Corporation of China, Ltd, respectively.

Mr. Liu has over 24 years of extensive corporate management experience in large-scale enterprises and has profound and yet pragmatic experiences in corporate strategic development, operation and internal control. Thanks to the outstanding performance of Sinochem Corporation under his leadership, in 2004, Mr. Liu was named by China Management Central Media Association and Phoenix TV as one of the "Top 10 Most Valuable Managers" in China. In 2008, Mr. Liu was honored as one of the "30 Business Leaders during China's 30-Year Opening up and Reform". Mr. Liu is a member of the 11th National Committee of the Chinese People's Political Consultative Conference and a director of International Academy of Management (IAM).

Mr. SONG Yu Qing – Deputy Chairman and Non-Executive Director

Mr. SONG Yu Qing, aged 60, joined the Company in August 2001 and is Deputy Chairman of the Board and a Non-executive Director. Before he joined Sinochem Corporation in 1987, Mr. Song was an official in MOFTEC (Ministry of Foreign Trade and Economic Cooperation). In Sinochem Corporation, he was in charge of the human resources and was promoted as the Vice President of Sinochem Corporation in May 1993. In November 1995, Mr. Song was transferred to work as the Deputy General Manager of Shanghai Foreign Trade Center which was responsible for the construction of Jinmao Tower in Shanghai. From January 1999 till now, Mr. Song has been a director and the Managing Director of Sinochem Hong Kong (Group) Co., Ltd.

Mr. DU Ke Ping – Executive Director and Chief Executive Officer

Mr. DU Ke Ping, aged 47, is an Executive Director and Chief Executive Officer of the Company. He graduated from the department of accounting of Shandong Economic Institute with a Bachelor's degree in 1983, and obtained an MBA degree from the University of International Business and Economics in 1997. Before joining the Sinochem Corporation, Mr. Du was an officer of the Ministry of Foreign Trade and Economic Cooperation (the predecessor of the Ministry of Commerce), and had served at KPMG. During his 19-year service term at Sinochem Corporation, he had held a number of senior positions. He had been the deputy general manager of finance department in America West Pacific Refinery Co., deputy general manager in Sinochem Rubber Co., Ltd, deputy general manager of Sinochem International Fertilizer Trading Company, general manager of Sinochem Yu Hua Loong Trading SDN. BHD., general manager of rubber division of Sinochem International Co., Ltd. He was appointed as the general manager of Sinochem International Fertilizer Trading Company in 1999 and was later promoted to assistant president and Vice President of Sinochem Corporation and in charge of the overall management of the fertilizer business. Since 14 February 2006, Mr. Du no longer held the position of Vice President of Sinochem Corporation so as to devote the whole of his time to lead the management and operations of the Company. Mr. Du has a profound understanding of corporate management and business operations with a keen insight on financial management and international strategic alliances.

Mr. Harry YANG – Executive Director and Deputy General Manager

Mr. Harry YANG, aged 46, is currently an Executive Director and Deputy General Manager of the Company, mainly responsible for the management of the Company's investor relations, property operations and logistic management. Mr. Yang graduated from Shandong Normal University in 1983 with a Bachelor degree and from the University of International Business and Economics in 1989 with a Master degree in International Business English. Mr. Yang joined Sinochem Corporation in 1989 and served successively as the general manager of Sinochem (USA) Inc. and Sinochem International London Oil Co., Ltd. and the director, general manager and deputy general manager of US Agrichemicals Corp. In 2002, Mr. Yang was appointed as the deputy general manager of fertilizer group, and was promoted to the present position in March 2006. Mr. Yang possesses years of experiences in international trade and fertilizer business with a deep understanding of the international fertilizer market. Mr. Yang had served at Sinochem Corporation for more than 20 years.

Dr. CHEN Guo Gang – Non-executive Director

Dr. CHEN Guo Gang, aged 49, is currently a Non-executive Director of the Company. Dr. Chen graduated from the accounting department of Xiamen University with a Doctorate degree in 1988 and is a Senior Accountant in the PRC. Dr. Chen joined Sinochem Corporation in 1991 and served successively as the deputy general manager of Finance Department, vice president of China United Petrochemical Co., and general manager of Finance Department of Sinochem Corporation. Dr. Chen now serves as the Chief Financial Officer of Sinochem Corporation and is responsible for finance, risk management and insurance of Sinochem Corporation. Dr. Chen has a profound understanding on finance management, international financing, capital management and corporate risk control. He is also a director of Sinochem International Co., Ltd (listed on the Shanghai Stock Exchange) and president of Sinochem Finance Co., Ltd.

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 58, joined the Company in July 2005 as a Non-executive Director. He is currently the Senior Vice President of Fertilizer Sales for PCS Sales (USA) Inc., a wholly-owned subsidiary of Potash Corporation of Saskatchewan Inc. ("PotashCorp"). He is also a board member of Phosphate Chemicals Export Association, Inc., an export marketing association composed of several phosphate fertilizer companies through which member companies market and sell phosphate fertilizers, of which PotashCorp is a member. Dr. Dowdle obtained a Bachelor of Arts degree from the Brown University and a Ph.D. in Agronomy and Soil Science from the University of Hawaii. While completing his Ph.D., Dr. Dowdle lived in China and carried out advance field research at Central China Agricultural University in Wuhan, China. Dr. Dowdle has over 23 years experience in the fertilizer business, and has considerable experience in China and Asia, having lived and worked in the region for more than 15 years.

Mr. Wade FETZER III – Non-executive Director

Mr. Wade FETZER III, aged 71, joined the Company in March 2006 as a Non-executive Director. He graduated from the University of Wisconsin with a Bachelor Degree in Economics in 1959 and from the Northwestern University with a Master Degree in Business Administration in 1961. Mr. Fetzer III is experienced in the areas of finance. After 10 years in the field of investment banking and management consultancy, Mr. Fetzer III joined Goldman Sachs in 1971 and became a general partner in 1986 heading up its investment banking for the 16 states Midwest region of the United States of America. He became a limited partner of the same firm in 1994 and is now a retired partner. Mr. Fetzer III is currently a director of the University of Wisconsin Foundation and the Kellogg Alumni Advisory Board and a trustee of the Rush Medical Center. He is also a director of PotashCorp.

Mr. KO Ming Tung, Edward – Independent Non-executive Director and the Chairman of Nomination Committee

Mr. KO Ming Tung, Edward, aged 48, was appointed as an Independent Non-executive Director of the Company in April 2000. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ko obtained an external Bachelor of Laws Degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. He is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 18 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal and is presently a member of the Panel of Adjudicators of the Obscene Articles Tribunal, the Solicitors Disciplinary Tribunal Panel, the Disciplinary Panel A of the Hong Kong Institute of Certified Public Accountants and the Employment Law Committee of The Law Society of Hong Kong. Mr. Ko has been appointed as Tribunal Chairman of the Appeal Tribunal Panel under the Buildings Ordinance. He is also a manager of Chiu Chow Association Secondary School.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Kai Yuan Holdings Limited and Wai Chun Group Holdings Limited, and a non-executive director of New Smart Energy Group Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited. Mr. Ko was an independent non-executive director of China Pipe Group Limited whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited and was an independent non-executive director of Thiz Technology Group Limited whose shares are listed on the GEM Board of the Stock Exchange of Hong Kong Limited.

Dr. TANG Tin Sek – Independent Non-executive Director and the Chairman of Remuneration Committee

Dr. TANG Tin Sek, aged 50, joined the Company in April 2000 as an Independent Non-executive Director. He is also the Chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee of the Company. Dr. Tang obtained a Bachelor of Science degree from the University of Hong Kong in 1980, a Master of Business Administration degree from the University of Sydney, Australia in 1990 and a Doctor of Accountancy Degree from the Hong Kong Polytechnic University in 2004. Dr. Tang is a Certified Public Accountant and a partner of Terence Tang & Partners. He has over 28 years' experience in corporate finance, business advisory, financial management and auditing. Dr. Tang is a member of the Chinese Institute of Certified Public Accountants, the Institute of Chartered Accountants in Australia and the Chartered Association of Certified Accountants in the United Kingdom.

Other than the directorship in the Company, currently, Dr. Tang is also an independent non-executive director of CEC International Holdings Limited, New Smart Energy Group Limited, Interchina Holdings Company Limited and Wai Chun Group Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange of Hong Kong Limited. Dr. Tang ceased to be an independent non-executive director of Frankie Dominion International Limited (now known as Huscoke Resources Holdings Limited) on 16 April 2008.

Mr. TSE Hau Yin, Aloysius – Independent Non-executive Director and the Chairman of Audit Committee

Mr. TSE Hau Yin, Aloysius, aged 61, joined the Company in June 2007 as an Independent Non-executive Director. He is also the Chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee of the Company. Mr. Tse is a graduate of the University of Hong Kong. He is a fellow member of the Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president of the HKICPA. He joined KPMG in 1976, became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is also the Chairman of the International Advisory Council of The People's Municipal Government of Wuhan.

Other than the directorship in the Company, currently, Mr. Tse is also an independent non-executive director of China Construction Bank Corporation, CNOOC Limited, China Telecom Corporation Limited, Wing Hang Bank, Limited, Linmark Group Limited and SJM Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange of Hong Kong Limited.

Senior Management

Mr. ZHANG Bao Hong – Chief Financial Officer

Mr. ZHANG Bao Hong, aged 42, is the Chief Financial Officer of the Company. He graduated from the Guangdong University of Foreign Studies in 1988 majoring in corporate finance management, with a bachelor's degree in economics. Mr. Zhang obtained an EMBA degree from Guanghua School of Management of Peking University in 2005. Mr. Zhang joined Sinochem Corporation in 1988 and had served as the financial controller of Sinochem Japan Co., Ltd. Mr. Zhang was appointed as general manager of the Finance Department of Sinochem Fertilizer Company in June 1999, and then promoted to deputy general manager of the fertilizer group in August 2000. Mr. Zhang was promoted to the present position in August 2005.

Mr. LI Qiu Bing – Chief Operation Officer

Mr. LI Qiu Bing, aged 41, is the Chief Operation Officer of the Company. Mr. Li graduated from Beijing Industrial University in 1990 with a bachelor's degree in economics, majoring in foreign economics and trade, and obtained an FMBA degree jointly granted by Tsinghua University and the Chinese University of Hong Kong in 2004. In 1990, Mr. Li joined China National Agricultural Means and Production Group Company (CNAMPGC), and joined Sinochem Fertilizer Company in February 2003. Mr. Li was promoted to deputy general manager of Sinochem Fertilizer Company in November 2003, and was promoted to the present position in December 2005.

Mr. WANG Tie Lin – Deputy General Manager

Mr. WANG Tie Lin, aged 42, is Deputy General Manager of the Company. Mr. Wang graduated from the department of mechanical engineering of Tsinghua University with a Bachelor's degree in 1990, and Master's degree in 1994. Mr. Wang joined China Industrial Machinery Import and Export Corp in 1994, and joined Lion Fund Management Co., Ltd, of which Sinochem Corporation, the ultimate holding company of the Company, is a shareholder, in 2003. Mr. Wang joined Sinochem Fertilizer Company as deputy general manager and appointed deputy general manager of the Company in May 2006.

Mr. SHEN Qi – Deputy General Manager

Mr. SHEN Qi, aged 36, is Deputy General Manager of the Company. Mr. Shen graduated from Peking University in 1995 majoring in domestic economics management with a bachelor's degree in economics, and an EMBA degree in Cheung Kong Graduate School of Business in 2007. He joined Sinochem Corporation in 1995, and then joined Sinochem Fertilizer Company in December 1997 as departmental manager. In November 2003, Mr. Shen was appointed deputy general manager of Sinochem Fertilizer Company, and was promoted to the present position in August 2005.

Mr FENG Ming Wei – Deputy General Manager

Mr FENG Ming Wei, aged 45, is Deputy General Manager of the Company. Mr. Feng graduated from Beijing University of Iron and Steel Technology specializing in automation in 1987 and was an employed research student majoring in international economic studies in Renmin University of China. In 1984, he joined Sinochem Corporation, in which he had held positions in finance department and Sinochem representative office in Pakistan. He further promoted as the sales manager in the business department of SC Polymers Inc and the deputy general manager of Sinochem Plastic Company. Mr. Feng joined Sinochem Fertilizer Company in December 2001, he had held the positions of deputy general manager of import department, general manager of fertilizer department No.1, and assistant general manager of Sinochem Fertilizer Company. Mr. Feng was promoted to the present position in May 2007.

Mr. ZHANG Xue Nong – Deputy General Manager

Mr. ZHANG Xue Nong, aged 48, is Deputy General Manager of the Company. Mr. Zhang graduated from the School of Agriculture of Yangzhou University in 1987, and has worked in the fertilizer industry for more than 28 years. Mr. Zhang first served at Jiangsu Provincial Agricultural Means of Production Company in 1980 and later as deputy general manager. In 1998, he jointed Jiangsu Guolian Fertilizer Company as general manager. Mr. Zhang joined Sinochem Fertilizer Company in 2006, served successively as general manager of Jiangsu Branch Company, and as assistant general manager of Sinochem Fertilizer Company and concurrently general manager of nitrogen division, and was promoted to the present position in September 2008.

Ms. CHEN Yi Qing – Director of Human Resources

Ms. CHEN Yi Qing, aged 37, is Director of Human Resources of the Company. Ms. Chen graduated from Beijing Economics Institute with a bachelor's degree in economics in 1993, majoring in trade and economics, and from the Capital University of Economics and Business with a Master's degree in human resources management in 2000. Ms. Chen worked for China Packaging Import and Export Corp since 1993, and joined Sinochem Fertilizer Company in March 2001. Ms. Chen was appointed general manager of the Human Resources Department of Sinochem Fertilizer Company in November 2003, and promoted to the present position in August 2005.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Recognising the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited (the "Company") is committed to maintaining a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practices on corporate governance, and compliance with the Code on Corporate Governance Practices (the "Code on Corporate Governance Practices") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Compliance with the Code on Corporate Governance Practices

The Company has established Audit Committee and Remuneration Committee in compliance with the code provisions in the Code on Corporate Governance Practices of the Listing Rules issued by the Stock Exchange, established Nomination Committee in accordance with the recommended best practices contained in the Code on Corporate Governance Practices, and has determined the terms of reference of the committees in accordance with the relevant provisions.

For the year ended 31 December 2008 and up to the date of this report, the Company has fully complied with the code provisions in the Code on Corporate Governance Practices and its amendments from time to time.

Compliance with the Model Code for Securities Transactions

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

The Company has also adopted written guidelines on no less exacting terms than the Model Code for the relevant employees. No incident of non-compliance of the employees' written guidelines by the relevant employees was noted by the Company.

Summary of Duties of the Board of Directors and Various Committees

Board of Directors

The Board of Directors (the "Board") directs, monitors and supervises the management, business, strategic planning and financial performance of the Company and its subsidiaries (the "Group") and the Board considers that enhancing value for shareholders is a duty of the Directors.

Board composition

As at the date of this report, the Board consists of ten members. Among them, two are Executive Directors, five are Non-executive Directors and three are Independent Non-executive Directors. The biographical details of the directors are set out on pages 29 to 32 of this annual report.

Executive Directors:

All of the Executive Directors possess the qualification and experiences in their respective areas of responsibility and they have been worked for the Group for many years. Under the leadership of the Chairman of the Board, the Executive Directors are able to maintain the success of the Group's business.

Non-executive Directors:

The five Non-executive Directors of the Company are experienced and professionals in relevant business of the Group, who provide their professional opinion and analysis to the Board effectively.

Independent Non-executive Directors:

All of the three Independent Non-executive Directors are experienced professionals with different expertise in accounting and legal aspects. Their mix of skills and experience, and their independent view on matters of the Group provide constructive comments and suggestions to the Board and safeguarding the interests of the shareholders in general and the Company as a whole.

Independence of the Board

The Board has received from each of the Independent Non-executive Directors a written annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules, and is satisfied of their independence up to the date of this report and in accordance with the Listing Rules.

For the year ended 31 December 2008, Mr. Liu De Shu, Mr. Du Ke Ping, Mr. Song Yu Qing and Dr. Chen Guo Gang each held directorships or other positions in Sinochem Corporation (the ultimate controlling shareholder of the Company), its subsidiaries and/or its associated companies; Mr. Harry Yang is a Director of US Agrichemical Corp., a member company of Sinochem Corporation whose business ceased operation in November 2005.

Two of the Company's Non-executive Directors, Dr. Stephen Francis Dowdle and Mr. Wade Fetzer III, are nominated by Potash Corporation of Saskatchewan Inc. ("PotashCorp"), the second largest shareholder of the Company. Mr. Wade Fetzer III is also a director of PotashCorp.

Other than as described above, there is no other relationship among the Directors and, in particular, between the Chairman and the Chief Executive Officer.

Appointment, re-election and removal of Directors

The current term of office for the Executive Directors of the Company is fixed for three years and the term of office for the Non-executive Directors is fixed for two years. Pursuant to the bye-laws of the Company, every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years, and shall be subject to re-election by shareholders at the annual general meeting.

A person may be appointed as a member of the Board at any time either by the shareholders in a general meeting or by the Board upon recommendation of the Nomination Committee of the Company. Directors who are appointed by the Board shall be subject to election by shareholders at the first general meeting after their appointment.

Responsibilities of Chairman and Chief Executive Officer

The Board has authorized management team to handle daily operational matters under the instruction and supervision of the Chief Executive Officer. Mr. Liu De Shu, as the Chairman, is responsible to lead and ensure the effective management of the Board. Mr. Du Ke Ping, acting as the Chief Executive Officer, is responsible for the effective implementation of the policies formulated by the Board and the management of the businesses and operations of the Group.

Major duties of the Board

The Board is primarily responsible for the following matters:

(a) to approve and monitor the strategic plans of the Group;

(b) to review the financial performance and results of the Group;

(c) to review the dividend policy of the Company;

(d) to approve/monitor major acquisitions, investment, asset transactions and any other significant expenditures of the Group; and

(e) to supervise internal risk policy of the Group.

The Board is responsible for overseeing the preparation of the annual consolidated financial statements which ensures a true and fair view of the state of affairs and of the results and cash flow of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2008, the Directors have:

(a) approved the adoption of the applicable Hong Kong Financial Reporting Standards;

(b) selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;

(c) made judgements and estimates that are prudent and reasonable, and ensured the consolidated financial statements are prepared on a going concern basis; and

(d) ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

The Board recognizes that high quality corporate reporting is important in enhancing the relationship between the Company and its stakeholders. The Board aims at presenting a balanced, clear and comprehensive vision of the performance, position and prospects of the Group in all corporate communications.

Board meetings

For the year ended 31 December 2008, the Board held a total of four meetings to discuss the Group's strategies and planning, the Company's annual report, interim report, dividend policy, investment and acquisition projects, and other significant matters. The attendance rates of the Chairman, Mr. Liu De Shu, and other members of the Board were as follows:

	Attendance rate
Executive Directors	
Mr. Du Ke Ping *(Chief Executive Officer)*	4/4
Mr. Harry Yang	4/4
Non-executive Directors	
Mr. Liu De Shu *(Chairman)*	4/4
Mr. Song Yu Qing *(Deputy Chairman)*	4/4
Dr. Chen Guo Gang	3/4
Dr. Stephen Francis Dowdle	4/4
Mr. Wade Fetzer III	4/4
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	4/4
Dr. Tang Tin Sek	4/4
Mr. Tse Hau Yin, Aloysius	4/4

Audit Committee

An audit committee was established by the Board in 1999 (the "Audit Committee") with its terms of reference. The Audit Committee currently comprises three Independent Non-executive Directors of the Company. The Chairman of the Audit Committee is Mr. Tse Hau Yin, Aloysius and the other members are Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek.

The terms of reference of the Audit Committee have been adopted since its establishment and subsequently amended in accordance with the Code on Corporate Governance Practices and its amendments from time to time. The terms of reference of the Audit Committee are available on the Company's website.

The terms of reference of the Audit Committee are summarized as follows:

(a) to make recommendation to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration of external auditor and terms of engagement, and handle any issues regarding its resignation or dismissal;

(b) to review and monitor the independence and objectiveness of the external auditor and the effectiveness of audit procedures in accordance with the applicable standards;

(c) to develop and implement policies regarding the provision of non-audit services by the external auditor;

(d) to monitor the completeness of the Group's annual report and accounts, interim report and (if proposed to be issued) quarterly report, and to review significant financial reporting judgments contained therein;

(e) to review the financial control, internal control and risk management systems of the Group;

(f) to discuss the internal control system with the management to ensure that the management has discharged its duty to maintain an effective internal control system including the adequacy of resources, staff's qualifications and experience in the Group's accounting and financial reporting function, and their training programmes and budget;

(g) to perform investigations, actively or as instructed by the Board, on significant findings and response from the management in respect of the internal control matters;

(h) to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group and to review and monitor the effectiveness of the internal audit function;

(i) to review the financial and accounting policies and practices of the Group;

(j) to review the external auditor's report to the management, and any material queries raised by the external auditor to the management in respect of accounting records, financial accounts or internal control system and the corresponding management's response; and

(k) to ensure that the Board provides timely response to the issues raised in the external auditor's report to the management.

The Audit Committee met four times during the year ended 31 December 2008. The Chief Financial Officer and the external auditor had also attended the meetings. The attendance rates of each of the committee members at these meetings were as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Tse Hau Yin, Aloysius *(Chairman)*	4/4
Mr. Ko Ming Tung, Edward	4/4
Dr. Tang Tin Sek	4/4

The Audit Committee had completed the following work during the year:

(a) reviewed and commented on the Company's annual and interim reports (including the consolidated financial statements contained therein), and the result announcements of the Company, and recommended the same for Board approval;

(b) reviewed and discussed significant issues identified in the preparation of the consolidated financial statements;

(c) reviewed the independence of the external auditor, considered and made recommendation to the Board on the engagement of external auditors and the audit fee for the year ended 31 December 2008;

(d) discussed the audit plan, scope and responsibility before the commencement of work by the external auditor;

(e) reviewed and commented on the Company's corporate governance practices and the Group's financial control, internal control and risk management systems and made sufficient communication with the management on related matters;

(f) discussed the Group's internal audit plan with the Internal Audit Department;

(g) made recommendation to the Board on the appointment of external auditor, the terms of its engagement and audit fees for special audits in connection with acquisitions projects for the year;

(h) met with the external auditor without the management's participation; and

(i) reviewed the connected transactions conducted in 2008.

Remuneration Committee

A remuneration committee was established by the Board in August 2005 (the "Remuneration Committee") with its written terms of reference. The Remuneration Committee currently comprises five members. The Chairman of the Remuneration Committee is Dr. Tang Tin Sek and the other members are Mr. Ko Ming Tung, Edward, Mr. Tse Hau Yin, Aloysius, Dr. Stephen Francis Dowdle and Ms. Chen Yi Qing. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director of the Company and Ms. Chen Yi Qing who is the Director of Human Resources of the Group, the remaining three members are all Independent Non-executive Directors.

The terms of reference of the Remuneration Committee are summarized as follows:

(a) to make recommendations to the Board on the policy and structure of remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing such remuneration policy;

(b) to determine the remuneration packages of all Executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including those in relation to loss or termination of their office or appointment), and to make recommendations to the Board on the remuneration of Non-executive Directors;

(c) to review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time;

(d) to review and approve the compensation payable to Executive Directors and senior management in connection with any loss or termination of their office or appointment or the compensation arrangements for the dismissal or removal of directors for misconduct; and

(e) to ensure that no director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee met once during the year ended 31 December 2008. The Remuneration Committee had also approved or passed certain proposals by circulation of written resolutions during the year, and had presented the relevant proposals to the Board for review or approval, where applicable, in subsequent board meetings. The attendance rate of each of the committee members at the aforesaid meeting were as follows:

	Attendance rate
Independent Non-executive Directors	
Dr. Tang Tin Sek *(Chairman)*	1/1
Mr. Ko Ming Tung, Edward	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Non-executive Director	
Dr. Stephen Francis Dowdle	1/1
Director of Human Resources of the Group	
Ms. Chen Yi Qing	0/1

The Remuneration Committee had completed the following work during the year:

(a) approved the 2008 remuneration package (including cash compensation and bonus) of the Executive Directors and senior management;

(b) approved the 2008 long-term incentive plan to the Executive Directors and senior management;

(c) made recommendation to the Board in respect of the proposal on granting of share options under the share option scheme to Non-executive Directors;

(d) made recommendation to the Board in respect of the revision of directors' fee of Independent Non-executive Directors;

(e) approved the remuneration package (including cash compensation and bonus) of the newly appointed senior management;

(f) approved the re-appointment of remuneration consultant; and

(g) made recommendation to the Board in respect of the treatment of outstanding share options for employees who are transferred to companies within the Sinochem Group.

Remuneration policy of the Group

The key components of the Group's remuneration package include basic salary, and where appropriate, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options granted under the share option schemes of the Company. The objective of the Group is to associate the interests of key employees with the performance of the Group and the interests of shareholders, as well as achieving balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Group also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation to employees offered by the Group varies with importance of duties. The higher the importance of duties, the higher will be the ratio of incentive bonus to total remuneration. This can ensure that the Group can recruit, retain and motivate high-caliber employees required for the development of the Group and to avoid offering excess reward.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience and performance of the Directors. They include incentive bonus primarily based on the results of the Group and share options granted under the share option schemes of the Company. The Remuneration Committee performs review on the emoluments of the Directors from time to time. No Director, or any of his associates and executive, is involved in deciding his/her own emoluments.

The Group reviews its remuneration policy annually and engages professional consultant, if necessary, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 31 December 2008, the Group had about 11,100 full-time employees (including those employed by controlled entities), the remuneration of whom are determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration.

In addition to the basic remuneration, the Group also provided certain non-monetary benefits, such as training, to its employees. In 2008, the Group provided approximately 133,000 hours of training for about 11,450 employees. The training courses covered areas such as lean management, operation and management, legal and regulations, marketing management, finance, logistics, information technology, quality control, project management and production safety. These training further improve the management skills and professional standard of the management of the Group and enhance the overall quality of the employees to cater for the Group's rapid developments; hence, improves the competitiveness of the Group.

Nomination Committee

A nomination committee was established by the Board in August 2005 (the "Nomination Committee") with its written terms of reference. The Nomination Committee currently comprises four members. The Chairman of the Nomination Committee is Mr. Ko Ming Tung, Edward and the other members are Dr. Tang Tin Sek, Mr. Tse Hau Yin, Aloysius and Dr. Stephen Francis Dowdle. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director of the Company, the remaining three members are all Independent Non-executive Directors.

The terms of reference of the Nomination Committee are summarized as follows:

(a) to review, on a regular basis, the structure, size and composition of the Board, and to make recommendations to the Board on any proposed changes;

(b) to identify suitably qualified individual to become board members, select or recommend to the Board on the selection of individuals to be nominated for directorships;

(c) to assess the independence of Independent Non-executive Directors; and

(d) to make recommendations to the Board on relevant matters relating to the appointment and/or re-appointment of directors and succession planning for directors, in particular the Chairman and the Chief Executive Officer.

The Nomination Committee met once during the year ended 31 December 2008. The Nomination Committee had also approved or passed certain proposals by circulation of written resolutions during the year, and had presented the relevant proposals to the Board for review or approval, where applicable, in subsequent board meetings. The attendance rate of each of the committee members at the aforesaid meeting were as follows:

	Attendance rate
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward *(Chairman)*	1/1
Dr. Tang Tin Sek	1/1
Mr. Tse Hau Yin, Aloysius	1/1
Non-executive Director	
Dr. Stephen Francis Dowdle	1/1

The Nomination Committee had completed the following work during the year:

(a) reviewed the structure, size and composition of the Board and made suggestions to the Board;

(b) reviewed the terms of directors and made recommendations to the Board on their renewal;

(c) nominated the directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting; and

(d) reviewed the independence of the Independent Non-executive Directors and made suggestions to the Board.

No individual is nominated or appointed as a Director of the Company during the year.

External Auditor

The Group's external auditor is Deloitte Touche Tohmatsu. The Audit Committee is mandated to ensure continuing auditors' objectivity and safeguarding independence of the auditors. Up to the date of this report, the Audit Committee has considered and approved the engagement of Deloitte Touche Tohmatsu as auditors of the Group for the year ended 31 December 2008 and the corresponding audit fees estimation.

The audit fees paid or payable by the Group to the external auditor in respect of its audit and other non-audit services for the year ended 31 December 2008 were as follows:

	For the year ended 31 December	
Nature of services	**2008** **Amounts** ***RMB'000***	2007 Amounts *RMB'000* (restated)
Audit service (including audit of financial statements and other audit related projects)	**11,211**	7,841
Tax related service	**12**	15
Total	**11,223**	7,856

Financial Management

Being an essential component of corporate governance, the Group continues to pay attentions to the continuing improvements in financial management. In 2008, the Group continued to enhance the financial management in the following aspects: continuously adapting to the changes in external environment, optimizing fund management; promoting the budget management and evaluation of the distribution network; enhancing the quality and effectiveness of accounting work in distribution centers via establishment of standards, as well as providing training courses to financial personnel. All these works further enhanced the foundation of the Group's financial management system, improved the quality of management, and ensured effective management for the gradual development of the Group's strategy and business expansion.

In 2008, to cope with the global financial crisis, the Group actively sought to expand its banking facilities to meet the capital needs of the Group's business growth and strategic acquisitions. At the same time, by following closely the trend of exchange rate changes and interest rate changes, the Group adjusted its financing strategies and finance structures accordingly from time to time to lower capital risk and finance cost. The Group also signed the Framework Agreement on Strategic Cooperation with the Postal Savings Bank of China to develop mutual cooperation in terms of capital collection, ear-marked financing, small-amount loans, and financial products catering to the development of rural market.

In 2008, the Group also re-streamlined and optimized the work procedures for budget management and performance review of the distribution network. A special performance review plan for the distribution network was designed and implemented, and the professional abilities of the analysts were enhanced through trainings and case studies. As a result, the work of budget management and performance review of the distribution network was highly related to and interactive with the operations of the distribution network, which helped to encourage sales growth.

In 2008, the Group also tightened the centralized management of the financial personnel, and set up a smooth job rotation mechanism among the staff working both in China and abroad in Hong Kong and Macao. The financial team's awareness of corporate culture and policies as well as their execution performance were further enhanced. Meanwhile, individualized training programs were introduced for different positions to arouse the working enthusiasm of the financial personnel.

Internal Control

In compliance with the requirements set out in C.2 of the Code on Corporate Governance Practices contained in the Listing Rules, the Board understands its responsibility to maintain stable, appropriate and effective internal control system and to perform regular review in order to protect the interests of the shareholder and the assets of the Group. During the year, the Board conducted reviews over the Group's internal control, which covered all significant aspects including financial control, operational control, compliance with regulations and risk management functions.

Major Tasks of Internal Control in 2008

In compliance with the requirements set out in the Code on Corporate Governance Practices contained in the Listing Rules and the "Internal Control and Risk Management – A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants, the Group had, with reference to the COSO Internal Control Framework, introduced the concept, methods and tools of lean management, and further improved the internal control and risk management system covering the entire value chain of the Group's business so as to regulate and standardize production and operation activities including investment, trading and distribution.

Based on risk management consolidation in trading segment, the Group had further enhanced control on investment projects and distribution network during the year. In terms of investment project management, the Group further optimized the corporate governance structure of its subsidiaries and affiliated companies, and vigorously promoted lean management among all the subsidiaries. The widespread and quick application of the concept of lean management among the Group's production segment had proved to be extremely helpful in energy saving, emission reduction and lowering overall energy consumption. At the same time, great attention was paid to standardizing the operations and regulating the six major functions of the distribution network. Consequently, the operating efficiency and quality of the distribution network was improved, and its operation safety was ensured.

Self-assessment of Internal Control in 2008

In order to enhance the effectiveness of the theorical standard and practical work of the internal control, the Group continuously revised its internal control planning covering all the business segments every year. On the basis of sufficient risk assessment and with the guidance of the COSO Internal Control Framework, the Group defined the objectives, methods, plans and the work team for its internal control as required by the Group's development strategy and external supervisory authorities. These clearly defined the goals and development direction of the Group's internal control system.

In respect of corporate culture, the Group paid great attention to the establishment of corporate culture and the improvement of corporate governance structure as the founding stone for internal control. The core value of the Group's corporate culture of "being honest, cooperative and keen to learn, and working with conscientiousness, innovativeness and high aspirations" has been vigorously promoted among all the employees for the cultivation of correct business ethics and professionalism. Diversified and multi-level training programs covering corporate culture, risk management and laws and regulations were conducted in 8,566 hours for 2,566 persons by the Group throughout the year. The trainees came from all divisions and all levels covering the headquarters, the distribution network and subsidiaries, and these trainings proved to be very helpful in promoting good character and competence of the employees.

In respect of risk assessment, the Group applied integrated operation management model covering upper, middle and lower stream. Based on assessment of potential and impact of the risks, the Group's major risks are from production, trading and distribution segments with the focus on capital risk, inventory ownership risk, credit risk, contract risk and production risk. Therefore, the Group has applied measures including centralized capital management, centralized inventory ownership management, overall process of credit risk management, professional contract risk management and safety production accountability management to prevent risks, ensuring operation security reasonably and effectively.

In respect of internal control activities, the Group adopted specific control measures to various types of risks existing in production and investment, trade and distribution on the basis of careful identification, analysis and assessment of such risks. With a focus on distribution network management and investment project management, the Group revamped the old workflow system and procedures to meet the needs of current operation management. A financial control for decision-making mechanism and a sound financial policy were adopted. A fair and transparent control mechanism with clearly defined functions and responsibilities was in place to ensure compliance with relevant rules and policies; a strict and accurate control mechanism was in place to ensure timely information disclosure; and a standardized and professionalized control mechanism was in place to monitor connected transactions.

In respect of information communication, the Group established a smooth information collection and disclosure channel and set up a special department to oversee the work for the timely collection and information flow needed for the Group's operations both inside and outside of the Group, including information on domestic macro-economic policies, industry development trends and the Group's internal operational information. Meanwhile, the Group established on-demand information technology system, providing effective guarantee for operation management system support, information security maintenance and operation information integration. During the year, the implementation of SAP system in off-shore entities and VPN system in distribution network further improved timeliness and accuracy of consolidated financial report and ensured information security in transmission.

In respect of internal supervision, the Group established an independent internal audit division with due authority and independence. Without any limits, the internal audit division continuously enhances audit concept based on orientation of risk, fully implements systematic and standardized audit procedures and methods. Regarding the Group's entire value chain, the internal audit division reviewed whole operation activities independently, objectively and continuously and performed special reviews on areas which were of particular concern to the management or the audit committee. During the year, internal control applied audits in forms of on-site and distant audit and further enlarged audit coverage including the headquarters, investment production entities, domestic distribution network and off-shore entities with the contents of internal control, risk management, economic responsibility and operation results. Internal audit division proposed solutions to the management based on audit result and followed up the implementation. In order to further strengthen the internal control, the Group set up and implemented anti-corruption and reporting administration system to strictly prohibit the breaching of law, rules and regulations and potential cases of infringement on the Company's interest.

Investor Relation and Information Disclosure

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

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

The Group attaches great emphasis on investor's relationship work, for which the senior management of the Company is directly responsible, maintaining close contact with the investors via multiple channels. In 2008, investor relationship related tasks of the Company mainly consisted of the followings:

In March, the Company announced 2007 annual results of the Group, held press conference and analysts meeting and conducted road-shows, introducing the Company to American, European and Asian investors.

In August, the Company announced 2008 interim results of the Group, held press conference and analysts meeting and conducted road-shows in Hong Kong.

Besides road-shows and results announcement, the Group participated in seven investor meetings organized by investment banks. In order to keep close contacts and smooth communications with fund managers, analysts and investment and analysis institutions, various means including one-to-one separate meetings, small-group conference and telephone conference were conducted in daily business. The Company had conducted as many as 400 visits or conversations with the investment and analysis institutions through a variety of ways in 2008.

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

Safety, Health and Environment

In 2008, the Group followed the guidelines of "safety first, prevention first, and comprehensive overhauling", and had made a greater effort in the implementation of Safety, Health and Environment (SHE) aspects. Despite of some enormous difficulties taking place during the year, including the snowstorm disasters in South China, the violent earthquake in Sichuan and the global financial crisis, the Group was able to maintain the record of zero-death and zero instance of significant accident including fire, explosion and pollution from leakage of dangerous chemicals. The ratio of mild injury was 1.46 per 1,000, which was within the control target set at the beginning of the year.

The Group attaches great importance to the health and occupational safety of its employees, and endeavors to create a safe, orderly and healthy working environment. Guided by the principle of "developing recycling economy, and utilizing resources comprehensively", the Company vigorously promoted recycling economy and clean production, striving to achieve maximum output with minimum waste emission in light of "reducing input, recycling and reusing."

1. Laying a solid foundation for production safety with standardized safety management

As its business keeps expanding, the Group has always adhered to the working principles of "safety first", never lowering its safety standard, and continuously raising the quality of work. In this respect, top priority was given to improving employees' working conditions, and publicizing laws and regulations on safety management, with a key focus on the employees' awareness of their safety at work. With the coordination of Production Safety Committee of the Group, environmental safety was strictly implemented from the top to the bottom level of the Group by way of standardized and formulated procedures and lean management. Strict execution of accountability system of production safety, safety regulations for various areas and detailed plans for safety work, training and monitoring were made to ensure a unified and orderly safety management system is always in place. In particular, the work of safety management of the Group's production subsidiaries in 2008 was significantly improved over the previous year in terms of safety training, safety inspections and safety rectification.

2. Actively pushing forward the SHE system and carrying out corporate social responsibility

The Group stipulated and began to implement the Procedures for Safety, Health and Environmental Protection Management and related policies in 2006, providing guidelines for production safety for all the business divisions and subsidiaries. By the end of 2008, Sinochem Zhisheng Fertilizer Co, Ltd and Sinochem Shandong Fertilizer Co, Ltd (both are production subsidiaries of the Group) had passed the certification of the quality management standard system, the environmental standard system and the health and safety standard system, while other subsidiaries had set up effective SHE responsibility system and occupational health management system to ensure and protect the health and interests of the employees, the consumers and the society in general.

3. Reducing waste emission through the environmental protection responsibility system

The production subsidiaries of the Group implemented a safety responsibility system for environmental protection and energy conservation and emission reduction. In 2008, pollutant emissions of the production enterprises were within the standards of the government or even reduced while industrial output increased, and no pollution accident ever happened. In 2008, Sinochem Fuling, the largest production subsidiary, invested RMB32 million in the infrastructure, construction and implementation of environmental protection and energy saving and emission reduction projects, which included the power generation project through waste heat recovery from the 4x0.3 million ton/annum sulphur-burning sulphuric acid plant. It was regarded as a CDM (Clean Development Mechanism) project, which realized quasi-zero waste water emission, and was successfully registered with the United Nations. For this reason, Siochem Fuling won two honorary titles as model enterprises for water and energy conservation and emission reduction in the chemical industry by China Chemical Safety Association. In April 2008, these remarkable achievements by Sinochem Fuling were widely reported by thirteen influential media organizations including the People's Daily, Xinhua News Agency, Guangming Daily, China National Radio and the Economic Daily.

4. Developing recycling economy and clean production technology

Following the guideline of "developing recycling economy, and utilizing resources comprehensively" as well as the principle of "reduction, reutilization and resource-orientation", the Group tries to maximize economic output, while minimizes pollutant emission, resource consumption and environmental pollution. The Group carries out accountability system to environmental protection targets, strictly abides by all the related laws and regulations, adopts higher and stricter standards than the official ones in advance, and helps the government in environmental regulation. To reach the standards for pollutant emission or reduce its volume with great increase in production, the Company controls the aggregate emission volume, regularly sample and analyze emission indicators of the three wastes (waste gas, waste water and industrial residue), and upgrade the pollution sources with emission reduction potentials. To enhance environmental protection management, besides on-spot inspection and on-line supervision, the Group pushes forward with ISO14000 (Environment Management System) among its production subsidiaries. It also responds positively to the requests from the government, strictly examines clear production, launches promotion activities at appropriate time, and makes everyone play his role in clear production. In 2008, Sinochem Shandong passed clean production examination by local government with 60 relevant options which are preliminarily feasible. Sinochem Fuling was commended in the National Pollution Survey and Environment-friendly Enterprises Contest organized by Chongqing municipal government.

The board of directors of the Company (the "Board") are pleased to present the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2008.

Principal Activities

The principal activity of the Company is investment holding.

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

An analysis of the Group's performance for the year by business segment is set out in note 6 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 83 of the annual report.

The Board recommended the payment of a final dividend of HK$0.0464 (equivalent to approximately RMB0.0409) per share for the year ended 31 December 2008 (2007: HK$0.0276, equivalent to approximately RMB0.0272 per share) to the shareholders, estimated to be HK$325,124,000 (equivalent to approximately RMB286,727,000) and the retention of the remaining profit in reserves.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 172 of the annual report.

Major Customers and Suppliers

During the year ended 31 December 2008, the aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's total turnover for the year, and the aggregate purchase attributable to the Group's five largest suppliers were also less than 30% of the Group's total purchases for the year.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year are set out in note 16 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company for the year are set out in note 33 to the consolidated financial statements.

Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 86 to 88 of the annual report.

Distributable Reserves of the Company

The Company's reserves available for distribution to shareholders as at 31 December 2008, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$379,332,000 (equivalent to approximately RMB334,533,000) (2007: HK$256,336,000, equivalent to approximately RMB240,059,000).

Donations

During the year ended 31 December 2008, the Group had made approximately RMB2,700,000 charitable donations in cash and donations of fertilizers with value of approximately RMB640,000 to those areas affected by natural disasters. In addition, the Group made RMB100,000,000 donation to the local water supply fund for supporting the ongoing local environmental protection project in China.

Directors

The Directors of the Company for the year and up to the date of this report were:

Executive Directors

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

Non-Executive Directors

Mr. Liu De Shu *(Chairman)*
Mr. Song Yu Qing *(Deputy Chairman)*
Dr. Chen Guo Gang
Dr. Stephen Francis Dowdle
Mr. Wade Fetzer III

Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward
Dr. Tang Tin Sek
Mr. Tse Hau Yin, Aloysius

In accordance with bye-laws of the Company, Mr. Song Yu Qing, Dr. Chen Guo Gang, Dr. Stephen Francis Dowdle, Mr. Wade Fetzer III and Mr. Tse Hau Yin, Aloysius will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

No Directors proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management of the Company are set out from pages 29 to 33 of the annual report.

Directors' Service Contracts

During the year, Mr. Du Ke Ping, Executive Director and Chief Executive Officer of the Company, and Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, renewed their respective service contracts with the Company for a term of another three years, up to 27 July 2011. Pursuant to the terms stipulated in their service contracts, the respective service contract with the Company may be (i) terminated prior to its expiry if either party serves two months' prior notice to the other in writing; or (ii) terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the respective service contract. Should the Company terminate the respective service contract with Mr. Du Ke Ping or Mr. Harry Yang prior to its expiry, Mr. Du or Mr. Yang will be entitled to receive a cash compensation equivalent to 11 months' of his annual director's salary, save for circumstances described in item (ii) above.

Save as disclosed above, none of the Directors has a service contract with the Company.

Directors' Interests in the Shares and Share Options

As at 31 December 2008, the interests of the Directors and chief executives in the shares, share options, underlying shares and debt securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

(a) Ordinary shares of HK$0.1 each of the Company

As at 31 December 2008, none of the Directors had any interests or short positions in the shares of the Company.

(b) Share options of the Company

The Company has adopted share option schemes to provide incentives to directors and eligible employees. On 28 June 2007, the Company has passed a resolution in a shareholders' meeting for the adoption of a new share option scheme (the "New Share Option Scheme") and the termination of the then existing share option scheme adopted on 26 August 2002 (the "Old Share Option Scheme"). Outstanding share options granted prior to such termination shall continue to be valid and, subject to the vesting schedule, exercisable in accordance with the Old Share Option Scheme.

(i) Particulars of the share option schemes of the Company are set out in note 34 to the consolidated financial statements.

(ii) As at 31 December 2008, certain Directors of the Company had interests in the share options granted under the Company's share option schemes as follows:

Name of Director	Capacity	Number of share options held	Number of underlying shares of the Company
Liu De Shu	Beneficial owner	1,639,800	1,639,800
Song Yu Qing	Beneficial owner	1,205,200	1,205,200
Du Ke Ping	Beneficial owner	4,819,800	4,819,800
Chen Guo Gang	Beneficial owner	1,205,200	1,205,200
Harry Yang	Beneficial owner	1,369,200	1,369,200
Wade Fetzer III	Beneficial owner	256,000	256,000

(iii) The movements in the Company's share options granted to Directors and employees under both the Old Share Option Scheme and the New Share Option Scheme during the year ended 31 December 2008 were as follows:

Old Share Option Scheme

				Number of share options			
Grantees	Date of grant	Exercisable period	Exercise price	Outstanding at 1 January 2008	Exercised during the year	Lapsed during the year	Outstanding at 31 December 2008
		(Note 1)	*HK$*		*(Note 2)*		
Directors							
Liu De Shu	23 January 2006	23 January 2008 – 22 January 2012	1.672	2,033,000	(813,200)	–	1,219,800
Song Yu Qing	23 January 2006	23 January 2008 – 22 January 2012	1.672	1,582,000	(632,800)	–	949,200
Du Ke Ping	23 January 2006	23 January 2008 – 22 January 2012	1.672	5,213,000	(813,200)	–	4,399,800
Chen Guo Gang	23 January 2006	23 January 2008 – 22 January 2012	1.672	1,582,000	(632,800)	–	949,200
Harry Yang	23 January 2006	23 January 2008 – 22 January 2012	1.672	1,582,000	(632,800)	–	949,200
Employees							
Employees	23 January 2006	23 January 2008 – 22 January 2012	1.672	16,453,000	(4,175,800)	(138,000)	12,139,200
				28,445,000	(7,700,600)	(138,000)	20,606,400

Note 1: During the period between 23 January 2008 and 22 January 2009, no more than two-thirds of the total number of share options granted to each Director and employee on 23 January 2006 can be exercised and the remaining share options will be exercisable after 22 January 2009 to 22 January 2012.

Note 2: The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised during the year was HK$5.92.

Note 3: No share options under the Old Share Option Scheme were granted or cancelled during the year.

New Share Option Scheme

				Number of share options		
Grantees	**Date of grant**	**Exercisable period**	**Exercise price**	**Outstanding at 1 January 2008**	**Lapsed during the year**	**Outstanding at 31 December 2008**
		(Note 4)	*HK$*			
Directors						
Liu De Shu	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	420,000
Song Yu Qing	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	256,000
Du Ke Ping	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	420,000
Chen Guo Gang	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	256,000
Harry Yang	28 August 2007	28 August 2009 – 27 August 2013	4.990	420,000	–	420,000
Wade Fetzer III	28 August 2007	28 August 2009 – 27 August 2013	4.990	256,000	–	256,000
Employees						
Employees	28 August 2007	28 August 2009 – 27 August 2013	4.990	6,672,000	(172,000)	6,500,000
				8,700,000	(172,000)	8,528,000

Note 4: The exercisable period of the share options granted to each Director and employee can be analysed as:

(i) 33.3% of the share options granted will be exercisable on or after 28 August 2009;

(ii) 16.7% of the share options granted will be exercisable on or after 28 August 2010; and

(iii) If the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ending 31 December 2009 is more than HK$0.674, a further 25% of the share options granted will be exercisable on or after 28 August 2010, and the remaining 25% of the share options granted will be exercisable on or after 28 August 2011; but if the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ending 31 December 2009 is HK$0.674 or less, 50% of the share options granted will be forfeited on 28 August 2010.

All remaining unexercised share options will be forfeited on 28 August 2013.

Note 5: No share options under the New Share Option Scheme were granted, exercised or cancelled during the year.

(c) Derivative interests in the shares of the Company

Mr. Du Ke Ping and Mr. Harry Yang, being Executive Directors of the Company, have derivative interests in respect of 362,526 shares and 253,711 shares, respectively, in the Company within the meaning of Part XV of the SFO. These derivative interests represent Mr. Du's and Mr. Yang's respective entitlement to receive an equivalent value in cash of 362,526 shares and 253,711 shares in the Company, subject to, among other things, satisfaction of certain performance targets.

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executives of the Company had any interests or short positions in any shares, share options, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register maintained by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than disclosed above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debt securities of, the Company or any other body corporate, and neither the Directors nor chief executives of the Company, nor any of 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 during the year.

Substantial Shareholders

As at 31 December 2008, other than the Directors or chief executives of the Company, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholder	Number of issued ordinary shares held – long positions	Percentage to the issued share capital of the Company
Sinochem Corporation *(Note 1)*	3,698,660,874	52.79%
Potash Corporation of Saskatchewan Inc. ("PotashCorp") *(Note 2)*	1,547,500,141	22.09%

Note 1: These shares represent the corporate interest of Sinochem Corporation held through its wholly-owned subsidiary, Sinochem Hong Kong (Group) Company Limited.

Note 2: These shares represent the corporate interest of PotashCorp held through its wholly-owned subsidiary, PCS (Barbados) Investment Company Limited.

Save as disclosed above, other than the Directors or chief executives of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2008.

Directors' Interests in Contracts of Significance

Save as disclosed above, no other contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Management Contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year.

Directors' Interests in Competing Business

During the year ended 31 December 2008, Mr. Du Ke Ping, Executive Director and Chief Executive Officer of the Company, was a director of Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong") and Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, was a director of US Agri-Chemicals Corporation.

Sinochem Shandong, prior to its acquisition by the Company (details disclosed below), and US Agri-Chemicals Corporation were members of the group comprising Sinochem Corporation and its subsidiaries (other than the Group) which engaged in the production of fertilizers. In order to limit the competition between the Group and Sinochem Shandong, Sinochem Corporation granted the option to the Company which allows the Company to acquire Sinochem Corporation's interests on Sinochem Shandong at a fair market value. On 28 November 2007, the Company exercised such option to acquire Sinochem Corporation's 51% equity interest in Sinochem Shandong. Such acquisition was completed on 20 February 2008. Upon completion of the acquisition, Sinochem Shandong becomes a subsidiary of the Company and as such, the business of Sinochem Shandong no longer be competing with the business of the Group. US Agri-Chemicals Corporation has ceased its operation since November 2005 and accordingly, there is no competing business with the Group. Save for Mr. Yang, none of the directors of US Agri-Chemicals Corporation held any positions or assumed any role in the Group during the year.

Save as disclosed above, during the year and up to the date of this report, none of the Directors of the Company and their respective associates were interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Connected Transactions

Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies and certain specific terms involved in this section shall have the same meaning assigned to them in the relevant circulars or announcements.

For the year ended 31 December 2008, the Group had the following transactions which constitute connected transactions/continuing connected transactions under the Listing Rules of the Stock Exchange and are hereby disclosed pursuant to Chapter 14A of the Listing Rules.

1. New Connected Transactions/Continuing Connected Transactions in 2008

From 1 January 2008 to 31 December 2008, the Company newly conducted the following connected transactions/continuing connected transactions, which are subject to reporting, announcement and/or independent shareholders' approval under Chapter 14A of the Listing Rules:

(1) Fertilizer Purchase Framework Agreement entered into between Sinochem Fertilizer and Guiyang Sinochem Kailin and revision of annual caps of the transactions

On 16 April 2008, Sinochem Fertilizer, a wholly-owned subsidiary of the Company, entered into the Fertilizer Purchase Framework Agreement with Guiyang Sinochem Kailin. Guiyang Sinochem Kailin is an associate of Guizhou Kailin which is the substantial shareholder of Sinochem Shandong, a non wholly-owned subsidiary of the Company. Guiyang Sinochem Kailin is therefore regarded as a connected person under the Listing Rules.

Pursuant to the Fertilizer Purchase Framework Agreement, Guiyang Sinochem Kailin will supply, and Sinochem Fertilizer will purchase, chemical and fertilizer products and materials (the "Products") for onward sale and distribution in the PRC by Sinochem Fertilizer. Guiyang Sinochem Kailin shall not in any way restrict Sinochem Fertilizer's means of sale and distribution.

The price of the Products shall be their fair market price in the PRC at the time the purchase order is placed, and shall be exclusive of the relevant transportation fees and ancillary costs.

The original annual cap for the transactions under the Fertilizer Purchase Framework Agreement are RMB320,000,000, RMB367,200,000 and RMB412,000,000, respectively, for each of the three years ending 31 December 2010. Such estimates are calculated based on the projected quantities of purchase by Sinochem Fertilizer through the arrangement with Guiyang Sinochem Kailin and the projected average price per ton of the Products for each of the relevant years (which is set in accordance with the fair market price in the PRC), having regard to the anticipated growth of fertilizer consumption in the PRC in the future and the continuing expansion of the Group's sales network.

During the year, the Company estimated that the onward sales volume of the Products would be greater than previously expected, and is expected to increase at a rate higher than that originally anticipated when the previous annual caps were set. Furthermore, the prices of Products have risen since the previous annual caps were set. For these reasons, the Company considered that the original annual caps in relation to the Fertilizer Purchase Framework Agreement are no longer sufficient and will need to be increased for each of the three years ending 31 December 2010 to accommodate the increasing purchases that the Company expects to achieve. The Company therefore revised the annual cap for each of the three years ending 31 December 2010 to RMB600,000,000, having taken into account (i) the historical value of the transactions; (ii) the projection of the increase in the onward sales volume of the Products; and (iii) the provision of buffer for the price volatility of raw materials, and on the basis that Guiyang Sinochem Kailin and Sinochem Fertilizer each determines the price of the Products according to fair market principles and on ordinary commercial terms.

The Fertilizer Purchase Framework Agreement is classified as a continuing connected transaction of the Company under Rule 14A.34 of the Listing Rules. As each of the relevant percentage ratios set out in the Listing Rules in respect of the maximum annual value of the transactions contemplated under the Fertilizer Purchase Framework Agreement is less than 2.5% on an annual basis, such continuing connected transaction is subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules and is exempt from the independent shareholders' approval requirements under Rule 14A.48 of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement dated 16 April 2008 and the announcement dated 24 September 2008 published by the Company.

2. Renewal/Revision of Continuing Connected Transactions in 2008

(2) Revision of Raw Materials Supply Agreement between Yongan Zhisheng and Sinochem Zhisheng and annual caps of transactions

As disclosed in the announcement dated 16 November 2007, Yongan Zhisheng entered into the Existing Raw Materials Supply Agreement with Sinochem Zhisheng on 16 November 2007, pursuant to which Yongan Zhisheng agreed to supply the Existing Raw Materials to Sinochem Zhisheng. The Existing Raw Materials Supply Agreement would expire on 31 December 2010. The price of the Existing Raw Materials was the actual cost of supply of such materials to Yongan Zhisheng plus applicable tax charges. Sinochem Zhisheng is a jointly controlled company owned as to 53.19% by Sinochem Fertilizer and 46.81% by Yongan Zhisheng. Yongan Zhisheng is the substantial shareholder of Sinochem Zhisheng and accordingly, Yongan Zhisheng is regarded as a connected person of the Company. Please refer to the abovementioned announcement for details of the terms of the Existing Raw Materials Supply Agreement.

As Sinochem Zhisheng proposed to adjust the categories of raw materials to be purchased from Yongan Zhisheng and to increase the purchase volume of raw materials (in view of the increased production capability of Sinochem Zhisheng), and Yongan Zhisheng proposed to revise its pricing model (in view of the growth of the price of the principal raw materials for use in fertilizer production internationally and domestically), a New Raw Materials Supply Agreement was entered into between Sinochem Zhisheng and Yongan Zhisheng on 19 June 2008 to replace the Existing Raw Materials Supply Agreement.

Pursuant to the New Raw Materials Supply Agreement, Yongan Zhisheng agreed to supply the New Raw Materials, steam and electricity to Sinochem Zhisheng. The New Raw Materials Supply Agreement will expire on 31 December 2010.

The price of the ammonia (氣氨), urea dissolution solution (尿素溶融液) and powdered urea (粉狀尿素) payable by Sinochem Zhisheng shall be at fair market price, which is the average price of such raw material or urea (in the case of urea dissolution solution) (including applicable tax charges) chargeable by Yongan Zhisheng to other party for the relevant month, minus transportation cost, packaging cost and other costs, as the case may be. The price of the remaining New Raw Materials (namely, hemihydrate gas (半水煤氣), instrument air (儀表空氣), recycled water (循環再用水) and shallow well water (淺井水)) shall be charged at cost basis, and Yongan Zhisheng is entitled to revisit the cost position annually. In addition, pursuant to the New Raw Materials Supply Agreement, Yongan Zhisheng will supply steam and electricity to Sinochem Zhisheng for its production in Yongan County. The price of steam shall be charged at cost basis. The price of electricity shall be charged at cost basis, which is with reference to, among other things, the rate charged for industrial enterprises as published by 永安市供電局 (Electricity Bureau of Yongan County) and the average rate of electricity cost of Yongan Zhisheng for the relevant month.

The existing annual cap for the purchase of the Existing Raw Materials under the Existing Raw Materials Supply Agreement for each of the three years ending 31 December 2010 was set at RMB91,433,500, RMB116,088,900 and RMB132,918,100, respectively.

In view of the terms of the New Raw Materials Supply Agreement, the existing annual cap has to be revised to reflect the expected annual purchase from Yongan Zhisheng. The revised annual cap for the purchase of the New Raw Materials and the supply of steam and electricity under the New Raw Material Supply Agreement for each of the three years ending 31 December 2010 was set at RMB126,866,000, RMB144,751,800 and RMB144,751,800 respectively. Such revised annual caps were calculated based on projected quantities of purchases for each of the relevant years, having regard to historical quantities and the anticipated growth of fertilizer consumption in the PRC in the future, the revised pricing model under the New Raw Materials Supply Agreement and the existing and the anticipated growth of the purchase volume and market price of the New Raw Materials.

The New Raw Materials Supply Agreement is entered into for the purpose of ensuring effective, efficient and stable supply of New Raw Materials, steam and electricity in view of the increased production capability of and the variety of raw materials to be purchased by Sinochem Zhisheng.

For detailed information on the aforesaid transaction, please refer to the announcement dated 19 June 2008 published by the Company.

(3) Renewal of Provision of Logistics Services between (i) Sinochem Fertilizer and Tianjin Beihai; and (ii) Tianjin Beifang and Tianjin Beihai

As disclosed in the announcement dated 24 February 2006, Sinochem Fertilizer and Tianjin Beihai entered into the Former SF Service Agreement, and Tianjin Beifang and Tianjin Beihai entered into the Former Tianjin Beifang Service Agreement. Pursuant to the SF Service Agreement, Tianjin Beihai will provide unloading, packaging, storage, port and other related services to Sinochem Fertilizer in relation to its fertilizers at the port of Tianjin in return for the payment of certain fees by Sinochem Fertilizer, while pursuant to the Tianjin Beifang Service Agreement, Tianjin Beihai will provide packaging services to Tianjin Beifang in relation to its products at the port of Tianjin in return for the payment of certain fees by Tianjin Beifang. The SF Service Agreement and the Tianjin Beifang Service Agreement, when aggregated as if they were one transaction pursuant to the Listing Rules, constituted a continuing connected transaction of the Company and were subject to the reporting and announcement requirements, but were exempted from the independent shareholders' approval requirements under the Listing Rules.

The annual cap for the continuing connected transactions contemplated under the Former Service Agreements for each of the three years ended 31 December 2008 were RMB84,000,000, RMB126,000,000 and RMB170,000,000, respectively. Such agreements had expired on 31 December 2008. These continuing connected transactions will continue following the conclusion of the new service agreements.

On 24 September 2008, Sinochem Fertilizer entered into the New SF Service Agreement and Tianjin Beifang entered into the New Tianjin Beifang Service Agreement with Tianjin Beihai respectively. Under the New SF Service Agreement, Tianjin Beihai will provide unloading, packaging, storage, port and other related services to Sinochem Fertilizer in relation to its fertilizers at the port of Tianjin in return for the payment of certain fees by Sinochem Fertilizer. The fees payable for the delivery of goods and the provision of services, including packaging and storage, between Tianjin Beihai and Sinochem Fertilizer shall be determined in accordance with the manner of service, the type of service and the actual fee incurred in respect of goods relating to each vessel, and shall be settled in accordance with prevailing market prices and on customary shipping terms, and an agreement will be separately entered into between Tianjin Beihai and Sinochem Fertilizer. Under the New Tianjin Beifang Service Agreement, Tianjin Beihai will provide unloading, packaging, storage, port and other related services to Tianjin Beifang in relation to its products at the port of Tianjin in return for the payment of certain fees by Tianjin Beifang. The fees payable for the packaging and storage services provided by Tianjin Beihai to Tianjin Beifang shall be determined in accordance with the manner of service, the type of service and the actual fee incurred in respect of goods relating to each vessel, and shall be settled in accordance with prevailing market prices and on customary shipping terms, and an agreement will be separately entered into between Tianjin Beihai and Tianjin Beifang.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Tianjin Beifang is held as to 60% by Sinochem Fertilizer and 40% by Tianjin Port. As Tianjin Beihai is held as to approximately 48.18% by Tianjin Port, Tianjin Beihai is therefore a connected person of the Company under the Listing Rules.

The transactions contemplated under The New SF Service Agreement and the New Tianjin Beifang Service Agreement (collectively "The New Service Agreements") are aggregated and treated as if they were one transaction pursuant to Rule 14A.25 of the Listing Rules. The annual cap for the transactions for each of the three years ending 31 December 2011 are RMB40,000,000, RMB60,000,000 and RMB80,000,000 respectively. The annual caps have been set based on the projected quantities of products for which Sinochem Fertilizer and Tianjin Beifang require the services of Tianjin Beihai at the port of Tianjin as estimated by the management and the related fees payable for each of the relevant years ending 31 December 2011.

For detailed information on the aforesaid transactions, please refer to the announcements dated 24 February 2006 and 24 September 2008 published by the Company.

3. Other Continuing Connected Transactions

Other than the above new and renewed/revised continuing connected transactions, the continuing connected transactions of the Company in 2008 also include the following:

(4) Sinochem Macao Import Canadian Potash from Canpotex International Pte. Limited

On 10 April 2006, Sinochem Macao, the wholly-owned subsidiary of the Company, entered into a memorandum with Canpotex, the associate of Potash Corporation of Saskatchewan Inc. (the substantial shareholder of the Company), pursuant to which both parties agreed to continue the transactions for a term of three years from 1 January 2007 to 31 December 2009. According to the memorandum, Canpotex agreed to supply through its indirectly wholly-owned subsidiary, Canpotex International Pte. Limited, and Sinochem Macao agreed to purchase Canadian potash. According to the memorandum, Sinochem Macao will purchase Canadian potash from Canpotex on an exclusive basis and Canpotex will not sell such potash to any other Chinese buyers unless otherwise agreed to between both parties.

During three years stated in the memorandum, prices for the potash to be supplied will be determined after arm's length negotiations between both parties with reference to prevailing market prices, and which is consistent with the longstanding procedures and practice between Canpotex and the members of the Group. The Directors consider that the pricing reflects normal commercial terms and is on terms no less favourable than those available from other independent third parties.

The annual cap for the transactions under the memorandum are HK$4,300,000,000, HK$5,300,000,000 and HK$6,300,000,000 for each of the three years ending 31 December 2009, respectively. The annual caps are calculated based on the estimated volume and prices of purchase pursuant to the terms of the memorandum with reference to the transaction volume of potash purchased for the previous years, and taking into account possible increasing demand for potash imports into the PRC for the relevant years.

For further details, please refer to the announcements dated 9 March 2006 and 20 April 2006, and the circular dated 25 May 2006. The transaction has been approved by the shareholders at the special general meeting held on 9 June 2006.

(5) Provision of Port Services to Sinochem Fertilizer by Qingdao Gangxing

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Qingdao Gangxing is held as to approximately 27% by Rillfung, 13.5% by Sinochem International, 39.7% by Qingdao Gang (Group) Company Limited, 10% by Zhongnong Transportation Company and 9.8% by Zhongnong Tianjin Company. Rillfung and Sinochem International are subsidiaries of Sinochem Corporation and collectively hold an approximately 40.5% interest in Qingdao Gangxing. Accordingly, Qingdao Gangxing constitutes an associate of Sinochem Corporation, the ultimate controlling shareholder of the Company, and a connected person of the Company within the meaning of the Listing Rules.

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

The annual caps for the continuing connected transactions contemplated under the Qingdao Port Service Agreement for each of the three years ended 31 December 2008 were RMB12,000,000, RMB15,000,000 and RMB18,000,000, respectively.

For detailed information, please refer to the announcement dated 28 April 2006 published by the Company.

(6) (i) Beijing Sinochem Distribution Purchase Fertilizer Products from Tianji Sinochem; and (ii) Beijing Sinochem Distribution Purchase Fertilizer Products from Tianji Coal

Beijing Sinochem Distribution is an indirect wholly-owned subsidiary of the Company held as to 60% by Sinochem Fertilizer and 40% by Tianji Coal. Since Tianji Sinochem is held as to 60% by Tianji Coal and 40% by Sinochem Corporation. Accordingly, Tianji Sinochem and Tianji Coal constitute connected persons of the Company within the meaning of the Listing Rules.

Upon the incorporation of Beijing Sinochem Distribution on 11 July 2006, Beijing Sinochem Distribution and Tianji Sinochem entered into the Tianji Gaoping Distribution Agreement. According to the terms and conditions of the agreement, Beijing Sinochem Distribution had been granted a right to sell the fertilizer products produced by Tianji Sinochem and the related raw materials in the PRC or other regions as agreed by both parties. In addition, Beijing Sinochem Distribution entered into the Tianji Coal Distribution Agreement with Tianji Coal. Pursuant to the terms and conditions of the agreement, Beijing Sinochem Distribution was granted an exclusive right to sell the fertilizer products produced by Tianji Coal and the related raw materials in the Shandong and Jiangsu provinces in the PRC.

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

The above transactions had been duly approved by the independent shareholders at the Company at the special general meeting held on 9 June 2006. For detailed information, please refer to the announcements dated 28 April 2006 and 9 June 2006, and the circular dated 25 May 2006 published by the Company.

The Company had completed the acquisition of 40% equity interest in Tianji Sinochem held by Sinochem Corporation on 30 January 2008 and Beijing Sinochem Distribution had completed its dissolution on 20 October 2008. Pursuant to the Listing Rules, following the dissolution of Beijing Sinochem Distribution, Tianji Coal and its associates no longer constitute connected persons of the Company. Accordingly, the transactions between the Company and/or the Company's subsidiary with Tianji Coal and Tianji Sinochem (a non-wholly owned subsidiary in which Tianji Coal holds 60% equity interest) contemplated under the Tianji Coal Distribution Agreement and Tianji Gaoping Distribution Agreement no longer constitute connected transactions of the Company.

(7) Sinochem Fertilizer Purchase Fertilizer Products from Beijing Sinochem Distribution

When the Company published the announcement on the connected transactions on 28 April 2006, Tianji Sinochem was held as to 40% by Sinochem Corporation and as to 60% by Tianji Coal, as such Tianji Coal, the holding company of Tianji Sinochem, became an associate of Sinochem Corporation, a substantial shareholder of the Company. Beijing Sinochem Distribution is an indirect non-wholly owned subsidiary of the Company and is held as to 40% by Tianji Coal, an associate of a substantial shareholder of the Company, and therefore, a connected person at the level of the Company. Upon the incorporation of Beijing Sinochem Distribution on 11 July 2006, Beijing Sinochem Distribution and Sinochem Fertilizer entered into the Beijing Procurement Agreement pursuant to which Sinochem Fertilizer will purchase fertilizer related products and raw materials from Beijing Sinochem Distribution at a fair market price in the PRC.

The annual caps for the continuing connected transactions contemplated under the aforesaid agreement for the three years ended 31 December 2008 are RMB481,000,000, RMB962,000,000 and RMB1,047,000,000, respectively.

The above transactions had been duly approved by the independent shareholders of the Company at the special general meeting held on 9 June 2006. For detailed information, please refer to the announcements dated 28 April 2006 and 9 June 2006, and the circular dated 25 May 2006 published by the Company.

The Company had completed the acquisition of 40% equity interest in Tianji Sinochem held by Sinochem Corporation on 30 January 2008 and Beijing Sinochem Distribution had completed its dissolution on 20 October 2008. Upon completion of acquisition, pursuant to the Listing Rules, Beijing Sinochem Distribution is no longer a connected person of the Company, as such, the transactions entered into with it by Sinochem Fertilizer will no longer constitute connected transactions.

(8) Import Service Framework Agreement between Sinochem Fertilizer, Sinochem Macao and Sinochem Corporation

Sinochem Fertilizer, Sinochem Macao and Sinochem Corporation entered into the Import Service Framework Agreement on 16 November 2007. Sinochem Fertilizer and Sinochem Macao are the wholly-owned subsidiaries of the Company, while Sinochem Corporation is the substantial shareholder and the connected person of the Company. As under PRC law, the Group is not allowed to import fertilizers and the right to import fertilizers is only granted to Sinochem Corporation and several other importers, Sinochem Corporation has agreed to provide import service to the Group under this agreement. Pursuant to the agreement, fertilizer products sourced from overseas by Sinochem Macao for Sinochem Fertilizer will first be sold to Sinochem Corporation. Sinochem Corporation, as an approved importer of fertilizer products in the PRC, will import the products sourced by Sinochem Macao and sell them all to Sinochem Fertilizer. Sinochem Corporation also imports a small amount of fertilizer products directly from specific companies from time to time. Sinochem Corporation has undertaken that, except for any fertilizer products imported by it on behalf of its other customers, it will sell all the fertilizer products it imports to Sinochem Fertilizer exclusively.

On the other hand, Sinochem Fertilizer is free to purchase fertilizer products from any authorized importers. Sinochem Fertilizer, Sinochem Corporation and Sinochem Macao will, in accordance with the provisions and principles stipulated in the Import Service Framework Agreement, enter into further specific agreements for the products imported through Sinochem Corporation. Under the Import Service Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties are as follows:

(i) the price to be paid by Sinochem Corporation to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Corporation will be set in accordance with the prevailing international market price;

(ii) the price to be paid by Sinochem Fertilizer to Sinochem Corporation for fertilizer products sourced from overseas by Sinochem Macao will be set on a cost basis, that is, the price of the imported fertilizer products acquired by Sinochem Corporation from Sinochem Macao plus product inspection costs, customs and excise handling charges, import duty, value added tax and a reasonable administration cost incurred by Sinochem Corporation in relation to the import of the fertilizers; and

(iii) the price to be paid by Sinochem Fertilizer to Sinochem Corporation for fertilizer products sourced by Sinochem Corporation directly from overseas will be set in accordance with the domestic wholesale market price.

The aggregate annual cap in respect of the continuing connected transactions between Sinochem Macao and Sinochem Corporation under the Import Service Framework Agreement for each of the three years ending 31 December 2010 is estimated to be US$2,454,840,000 (approximately RMB18,195,274,080), US$2,705,820,000 (approximately RMB20,055,537,840) and US$3,029,700,000 (approximately RMB22,456,136,400), respectively. Such estimates are calculated based on the projected quantities of purchase by Sinochem Corporation for Sinochem Fertilizer through the arrangement with Sinochem Macao and the projected average price per ton of products for each of the relevant years (which is set in accordance with the prevailing international market price). Payments are normally made within 90 days of delivery of the fertilizer products.

The aggregate annual cap in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Corporation under the Import Service Framework Agreement for each of the three years ending 31 December 2010 is estimated to be RMB18,663,080,000, RMB20,570,980,000 and RMB23,032,950,000, respectively. Such estimates are calculated based on:

(i) the projected quantities of sales of fertilizer products sourced from overseas by Sinochem Macao and the projected average price per ton of fertilizer products for each of the relevant years (which is set on a cost basis); and

(ii) the projected quantities of sales of fertilizer products sourced by Sinochem Corporation directly from overseas suppliers to Sinochem Fertilizer and the projected average price per ton of fertilizer products for each of the relevant years (which is set in accordance with the domestic wholesale market price). Payments are normally made within 90 days of delivery of the fertilizer products.

The aforesaid continuing connected transactions were refreshed in the special general meeting of shareholders of the Company held on 28 December 2007. For detailed information on the aforesaid transactions, please refer to the announcement dated 16 November 2007 and the circular dated 10 December 2007 published by the Company.

(9) Fertilizer Purchase Agreement between Sinochem Fertilizer and Sinochem Shandong

Sinochem Shandong entered into the Fertilizer Purchase Agreement with Sinochem Fertilizer on 16 November 2007. Prior to the completion of the acquisition of Sinochem Shandong by the Company, Sinochem Shandong is held as to 51% by Sinochem Corporation. The Fertilizer Purchase Agreement will expire on 31 December 2010. Sinochem Fertilizer may request that Sinochem Shandong enters into a new purchase agreement with it on the same terms upon the expiry of the current agreement.

Pursuant to this agreement, Sinochem Shandong has granted to Sinochem Fertilizer an exclusive right to sell its fertilizer products in the PRC, and shall sell all its fertilizer products to Sinochem Fertilizer based on production costs and the fair market price in the PRC at the time the purchase plan is submitted. Sinochem Shandong shall not grant any right to any third party to, sell any of its fertilizer products in the PRC during the term of the agreement. The agreement does not contain any provision obliging Sinochem Fertilizer to purchase fertilizer products from Sinochem Shandong. Sinochem Fertilizer shall provide Sinochem Shandong with a purchase plan two months in advance of a purchase, and Sinochem Shandong shall supply the fertilizer products required accordingly upon full payment of the relevant purchase price. Sinochem Fertilizer has entered into this agreement with Sinochem Shandong in order to avoid any competition between Sinochem Shandong and the Group.

The Group estimates that the annual cap of purchases of fertilizer products from Sinochem Shandong under the Fertilizer Purchase Agreement for each of the three years ending 31 December 2010 will be approximately RMB1,350,000,000, RMB1,540,000,000 and RMB1,740,000,000, respectively. Such estimates are calculated based on projected production capacity of Sinochem Shandong and projected average price per ton of products for each of the relevant years, having regard to the anticipated growth of fertilizer consumption in the PRC in the future and the continuing expansion of the Group's distribution network.

The renewal of the aforesaid continuing connected transaction was approved in the special general meeting of shareholders of the Company held on 28 December 2007. For detailed information on the aforesaid transaction, please refer to the announcement dated 16 November 2007 and the circular dated 10 December 2007 published by the Company.

The Company has completed the acquisition of Sinochem Shandong on 20 February 2008. Upon completion of the acquisition, Sinochem Shandong became the subsidiary of the Company and no longer constitutes connected person of the Company. The above transaction no longer constitutes continuing connected transactions, and accordingly, will not be subject to any transaction cap limitation.

(10) Fertilizer Supply Agreement between Sinochem Fertilizer and Sinochem Shandong

Sinochem Fertilizer entered into the Fertilizer Supply Agreement with Sinochem Shandong (owned as to 51% by Sinochem Corporation prior to the completion of the acquisition of Sinochem Shandong by the Company) on 16 November 2007. The agreement will expire on 31 December 2010.

Pursuant to the agreement, Sinochem Fertilizer shall supply potash fertilizers to Sinochem Shandong. Sinochem Shandong shall place a purchase order with Sinochem Fertilizer two months in advance of a purchase, and Sinochem Fertilizer shall reply to Sinochem Shandong within 15 business days of each purchase order. The price of the fertilizers shall be their fair market price in the PRC at the time the purchase order is placed. Sinochem Fertilizer shall deliver the fertilizer products ordered by Sinochem Shandong upon full payment of the relevant purchase price. Pursuant to the Fertilizer Supply Agreement, Sinochem Fertilizer may request that Sinochem Shandong enters into a new supply agreement with it on the same terms upon the expiry of the current agreement. Sinochem Fertilizer has entered into this agreement with Sinochem Shandong in order to avoid any competition between Sinochem Shandong and the Group.

Sinochem Fertilizer estimates that the annual cap of sales of potash fertilizers to Sinochem Shandong under the Fertilizer Supply Agreement for each of the three years ending 31 December 2010 will be approximately RMB1,324,026,000, RMB1,521,432,000 and RMB1,598,472,000, respectively. Such estimates are calculated based on projected quantities of sales and projected average price per ton of potash fertilizers for each of the relevant years, having regard to the anticipated growth of potash fertilizer consumption in the PRC in the future.

The aforesaid continuing connected transaction was approved in the special general meeting of shareholders of the Company held on 28 December 2007. For detailed information on the aforesaid transaction, please refer to the announcement dated 16 November 2007 and the circular dated 10 December 2007 published by the Company.

The Company has completed the acquisition of Sinochem Shandong on 20 February 2008. Upon completion of the acquisition, Sinochem Shandong became the subsidiary of the Company and no longer constitutes connected person of the Company. The above transaction no longer constitutes continuing connected transactions, and accordingly, will not be subject to any transaction cap limitation.

(11) UK Service Agreement between Sinochem Macao and Sinochem UK

Sinochem UK, a wholly-owned subsidiary of Sinochem Corporation, entered into the UK Service Agreement with Sinochem Macao on 16 November 2007. The agreement will expire on 31 December 2010.

Pursuant to the agreement, Sinochem UK shall provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (which mainly includes salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs). The fee payable by Sinochem Macao shall be US$6 (equivalent to approximately RMB44) per ton of products Sinochem Macao purchased from its suppliers and in respect of which Sinochem UK has provided service. Sinochem UK and Sinochem Macao may by agreement in writing adjust the fee payable in accordance with changes in operation expenses of Sinochem UK.

Such services are provided at the request of the Group as the Group does not have any staff working in Europe. Sinochem UK shall invoice Sinochem Macao for all services it provides from time to time and Sinochem Macao shall settle the invoice within 10 days of the date of such invoice. The Group estimates that the annual cap of fees payable to Sinochem UK for each of the three years ending 31 December 2010 will be approximately US$2,000,000 (equivalent to approximately RMB14,824,000). Such estimates are calculated based on projected quantities of purchases by Sinochem Macao from local suppliers in Europe and projected average price per ton of products for each of the relevant years, having regard to the growth in the market demand of fertilizer products in Europe.

For detailed information on the aforesaid transaction, please refer to the announcement dated 16 November 2007 published by the Company.

(12) Logistics Services Agreement between Tianjin Port Group and Tianjin Beifang

Tianjin Port Group and Tianjin Beifang entered into the Logistics Services Agreement on 16 November 2007. This agreement will expire on 31 December 2010. Pursuant to this agreement, Tianjin Port Group shall provide logistics services to Tianjin Beifang for standard fees at which Tianjin Port Group charges all its customers. Such fees are to be settled by Tianjin Beifang after the logistics services are provided.

Tianjin Beifang is owned as to 60% by the Company and 40% by Tianjin Port, a wholly-owned subsidiary of Tianjin Port Group. Accordingly, Tianjin Port Group is a connected person of Tianjin Beifang by virtue of being an associate of Tianjin Port, a substantial shareholder of Tianjin Beifang.

The annual cap of fees payable by Tianjin Beifang to Tianjin Port Group for the provision of such services for each of the three years ending 31 December 2010 is estimated to be RMB123,500,000, RMB128,600,000 and RMB144,700,000, respectively. Such estimates are calculated based on projected quantities of products that will require port services and fees payable for each of the relevant years, having regard to historical quantities, fees and the continuing expansion of the Group's sales network in the PRC and overseas.

For detailed information on the aforesaid transaction, please refer to the announcement dated 16 November 2007 published by the Company.

(13) MOU between Sinochem Macao and PCS Sales

On 10 January 2007, Sinochem Macao, an indirect wholly-owned subsidiary of the Company, entered into an MOU with PCS Sales, a wholly-owned subsidiary of the Company's substantial shareholder, Potash, under which the parties agreed to enter into transactions for a maximum term of three years from 1 January 2007 to 31 December 2009 for the supply of sulfate of potash magnesia by PCS Sales to Sinochem Macao.

The annual cap for the transactions under the MOU are US$4,840,000 (equivalent to approximately HK$37,752,000), US$8,800,000 (equivalent to approximately HK$68,640,000) and US$11,000,000 (equivalent to approximately HK$85,800,000) for the three years ending 31 December 2009, respectively.

For detailed information on the aforesaid transaction, please refer to the announcement dated 11 January 2007 published by the Company.

(14) Tianjin Port Service Agreement between Tianjin Beifang and Tianjin Sinochem Storage

On 10 January 2007, Tianjin Beifang (in which Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, holds 60% of its equity interest) entered into the Tianjin Port Service Agreement with Tianjin Sinochem Storage (which is held as to 60% by Sinochem International and as to 40% by Sinochem Tianjin Corporation; the ultimate shareholder of the Company, Sinochem Corporation held as to 55.43% in Sinochem International and as to 100% in Sinochem Tianjin Corporation), under which Tianjin Beifang will provide services on customs clearance, logistics, packaging, storage and other related services to Tianjin Sinochem Storage in relation to its goods at the port of Tianjin for a term of three years from 1 January 2007 to 31 December 2009.

The annual cap for the transactions under the Tianjin Port Service Agreement are RMB16,200,000, RMB18,900,000 and RMB18,900,000 for the three years ending 31 December 2009, respectively.

For detailed information on the aforesaid transaction, please refer to the announcement dated 11 January 2007 published by the Company.

(15) *Sales Agreement between Sinochem Fertilizer and Tianji Group Potash*

On 12 April 2007, Sinochem Fertilizer, an indirect wholly-owned subsidiary of the Company, entered into the Sales Agreement with Tianji Group Potash, a wholly-owned subsidiary of Tianji Coal and Chemical Engineering (the substantial shareholder of Beijing Tianji Sinochem Trading, a subsidiary of the Company). Pursuant to the Sales Agreement, Sinochem Fertilizer will supply, and the Tianji Group Potash will purchase, potash materials. The Sales Agreement will expire on 31 December 2009.

The annual cap for the transactions under the Sales Agreement are RMB19,950,000, RMB23,650,000 and RMB28,600,000 for the three years ending 31 December 2009, respectively.

For detailed information on the aforesaid transaction, please refer to the announcement dated 13 April 2007 published by the Company.

Beijing Tianji Sinochem Trading had completed its dissolution on 20 October 2008. Pursuant to the Listing Rules, following the dissolution of Beijing Tianji Sinochem Trading, Tianji Group Potash and its associates no longer constitute connected persons of the Company. Accordingly, the Sales Agreement between Sinochem Fertilizer and Tianji Group Potash no longer constitute connected transactions of the Company.

(16) *Property Leasing Agreement between Sinochem Fertilizer and Chemsunny*

On 8 June 2007, Sinochem Fertilizer entered into a property leasing agreement with Chemsunny (an indirect wholly-owned subsidiary of Sinochem Corporation, the ultimate controlling shareholder of the Company), pursuant to which Sinochem Fertilizer will lease from Chemsunny Unit F10, Central Tower of Chemsunny Plaza, with a total construction area of approximately 4,804.80 square meters, as office premises of Sinochem Fertilizer for the period from 1 June 2007 to 31 December 2009. The Lease Agreement was effective from 1 June 2007 and expires on 31 December 2009. There was a three-month rent-free period from 1 June 2007 to 31 August 2007.

The annual cap for the transactions under the Lease Agreement are RMB6,606,092, RMB18,118,980 and RMB18,118,980 for the three years ending 31 December 2009, respectively. Such annual caps are inclusive of the rental and management fees. Such annual caps are calculated based on the amounts of rental, property management fees, utilities, car park and other miscellaneous fees according to the terms of the Lease Agreement for the relevant years, taking into account the rent-free period for the first year and the possible annual increment in management fees and utility charges in accordance with the terms of the Lease Agreement commencing from the second year of the term.

For detailed information on the aforesaid transaction, please refer to the announcement dated 8 June 2007 published by the Company.

(17) Agrichemical Sourcing Agreement between Sinochem Fertilizer and SRICI

Shenyang Research Institute of Chemical Industry ("SRICI"), a wholly-owned subsidiary of Sinochem Corporation, entered into an Agrichemical Sourcing Agreement with Sinochem Fertilizer on 16 November 2007, which will expire on 31 December 2010. Pursuant to the agreement, Sinochem Fertilizer is granted the exclusive right to sell SRICI's agrichemical products in Hebei, Shandong, Shanxi, Shaanxi, Beijing, Tianjin, Gansu, Ningxia, Qinghai and Xinjiang. The maximum turnovers for the transactions under the Agrichemical Sourcing Agreement for the three years ending 31 December 2010 are estimated to be RMB20,000,000, RMB30,000,000 and RMB40,000,000, respectively.

For detailed information on the aforesaid transaction, please refer to the announcement dated 16 November 2007 published by the Company.

(18) Fertilizer Purchase Framework Agreement between Sinochem Fertilizer and Qinghai Salt Lake Potash

Sinochem Fertilizer has in its ordinary and usual course of business purchased fertilizer products from Qinghai Salt Lake Potash. Upon completion of the Shandong Acquisition, Qinghai Salt Lake Potash became a connected person of the Company by reason of Qinghai Salt Lake Potash being an associate of Qinghai Salt Lake Industry Group, a substantial shareholder of Sinochem Shandong (Sinochem Shandong became a subsidiary of the Company upon completion of the Shandong Acquisition).

In its ordinary and usual course of business, Sinochem Fertilizer entered into the Fertilizer Purchase Framework Agreement with Qinghai Salt Lake Potash on 26 November 2007. The Fertilizer Purchase Framework Agreement will take effect from the beginning of the 2008 financial year and expire on 31 December 2010. Pursuant to the Fertilizer Purchase Framework Agreement, Qinghai Salt Lake Potash will supply, and Sinochem Fertilizer will purchase, chemical and fertilizer products and materials.

The Company estimates that the annual cap of purchases of potash fertilizer by Sinochem Fertilizer under the Fertilizer Purchase Framework Agreement will be approximately RMB2,400,000,000, RMB2,880,000,000 and RMB4,200,000,000 for each of the three years ending 31 December 2010.

The aforesaid continuing connected transaction was approved in the special general meeting of the shareholders of the Company held on 28 December 2007. For detailed information on the aforesaid transaction, please refer to the announcement dated 28 November 2007 and the circular dated 12 December 2007 published by the Company.

4. **The annual caps approved for and the actual transaction amount of continuing connected transactions in the year 2008 are set out below:**

Name of Transactions		Currency	Annual Caps for Year 2008	Actual Transacted Amount for Year 2008
			($'000)	*($'000)*
Continuing Connected Transactions subject to Independent Shareholders' Approval Requirements				
(1)	Import Service Framework Agreement			
	(i) Sinochem Corporation imports from Sinochem Macao	USD	2,454,840	1,649,862
	(ii) Sinochem Fertilizer purchases from Sinochem Corporation	RMB	18,663,080	10,604,981
(2)	Sinochem Fertilizer purchases fertilizer from Sinochem Shandong *(Note 1)*	RMB	1,350,000	77,977
(3)	Sinochem Fertilizer sells fertilizer to Sinochem Shandong *(Note 1)*	RMB	1,324,026	2,954
(4)	Sinochem Macao imports Canadian potash from Canpotex International Pte. Limited (on behalf of Canpotex Limited)	HK$	5,300,000	4,167,120
(5)	(i) Beijing Sinochem Distribution purchases fertilizer products from Tianji Sinochem *(Note 2)*	RMB	1,047,000	556,525
	(ii) Beijing Sinochem Distribution purchases fertilizer products from Tianji Coal *(Note 2)*	RMB		–
		RMB	1,047,000	556,525
(6)	Sinochem Fertilizer purchases fertilizer products from Beijing Sinochem Distribution *(Note 2)*	RMB	1,047,000	556,525
(7)	Sinochem Fertilizer purchases fertilizer products from Qinghai Salt Lake Potash	RMB	2,400,000	1,486,614

Name of Transactions		Currency	Annual Caps for Year 2008	Actual Transacted Amount for Year 2008
			($'000)	*($'000)*
Continuing Connected Transactions exempted from Independent Shareholders' Approval Requirement but Subject to Reporting, Announcement and Annual Review Requirements				
(8)	Qingdao Gangxin provides port services to Sinochem Fertilizer	RMB	18,000	2,452
(9)	Sinochem UK provides agency services to Sinochem Macao	USD	2,000	1,750
(10)	Tianjin Port Group provides logistic services to Tianjin Beifang	RMB	123,500	68,740
(11)	Yongan Zhisheng supplies raw materials to Sinochem Zhisheng *(Note 3)*	RMB	126,866	55,582
(12)	(i) Tianjin Beihai provides logistics services to Sinochem Fertilizer	RMB	170,000	1,658
	(ii) Tianjin Beihai provides packing services to Tianjin Beifang	RMB		481
		RMB	170,000	2,139
(13)	PCS Sales supply potash magnesia to Sinochem Macao	USD	8,800	8,656
(14)	Tianjin Beifang provides logistic services to Tianjin Sinochem Storage	RMB	18,900	–
(15)	Sinochem Fertilizer sells potash materials to Tianji Group Potash	RMB	23,650	12,211
(16)	Sinochem Fertilizer leases property from Chemsunny	RMB	18,119	17,817
(17)	Sinochem Fertilizer purchases fertilizer from Guiyang Sinochem Kailin	RMB	600,000	236,321
(18)	Sinochem Fertilizer purchases pesticide from SRICI	RMB	20,000	–

Notes: (1) Pursuant to Listing Rules, after the completion of the Company's acquisition of Sinochem Shandong on 20 February 2008, the latter is no longer a connected person of the Company, and any transaction between the Company and Sinochem Shandong no longer constitutes connected transaction, and is no longer subject to transaction caps limitation.

(2) The Company had completed the acquisition of 40% equity interest in Tianji Sinochem held by Sinochem Corporation on 30 January 2008 and Beijing Sinochem Distribution had completed its dissolution on 20 October 2008. Pursuant to the Listing Rules, following the dissolution of Beijing Sinochem Distribution, Tianji Coal and its associates no longer constitute connected persons of the Company. Accordingly, the transactions between the Company and/or the Company's subsidiary with Tianji Coal and Tianji Sinochem (a non-wholly owned subsidiary in which Tianji Coal holds 60% equity interest) contemplated under the Tianji Coal Distribution Agreement and Tianji Gaoping Distribution Agreement no longer constitute connected transactions of the Company.

(3) Yongan Zhisheng Chemical Company Limited has renamed as Zhisheng Chemical Inc.

5. Confirmation from Independent Non-Executive Directors

In the opinion of the Independent Non-executive Directors, the continuing connected transactions for the year ended 31 December 2008 were entered into by the Group:

- in the ordinary and usual course of its business;
- either on normal commercial terms or, where there are no sufficiently comparable transactions, on terms no less favorable than the terms the Company could have obtained from an independent third party; and
- in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

6. Confirmation from external auditor in respect of the continuing connected transactions

The Board has received a letter from the external auditor, expressing that these continuing connected transactions:

- have received the approval of the Board;
- have been entered into in accordance with the terms of the relevant agreements governing such transactions;
- have not exceeded the relevant caps for the financial year ended 31 December 2008; and
- have been entered into in accordance with the pricing policies of the Company with reference to similar transactions with independent third parties.

Contracts of Significance between the Company and the Controlling Shareholder

Sinochem Corporation is the ultimate controlling shareholder of the Company. The contracts of significance between the Company and/or its subsidiaries with Sinochem Corporation and/or its subsidiaries are provided in detail in the sections headed "Connected Transactions" and "Major Discloseable Events" in this Directors' Report.

Major Discloseable Events

Note: Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies and certain specific terms involved in this section shall have the same meaning assigned to them in the relevant circulars or announcements.

The Company has the following major events during the year:

1. On 2 November 2007, the Company entered into a subscription agreement with Sinochem HK and PCS pursuant to which Sinochem HK and PCS agreed to subscribe and the Company agreed to issue and allot 714,285,714 Subscription Shares at the Subscription Price of HK$7.00 per Subscription Share. The Sinochem HK Subscription Shares and the PCS Subscription Shares represent approximately 8.37% and 3.13% respectively of the issued share capital of the Company and approximately 7.51% and 2.81% respectively of the issued share capital of the Company as enlarged by the Subscription. The Subscription Shares represent approximately 11.50% of the existing issued share capital of the Company and approximately 10.31% of the issued share capital of the Company as enlarged by the Subscription. The Subscription Price of HK$7.00 per Subscription Share was arrived at after arm's length negotiation between the Company, Sinochem HK and PCS, with reference to the market conditions and taking into account the recent trading price of the Shares at that time.

   The aforesaid transaction was approved in the special general meeting of shareholders of the Company held on 28 December 2007. For detailed information on the aforesaid transaction, please refer to the announcement dated 2 November 2007 and the circular dated 10 December 2007 published by the Company.

   On 7 January 2008, the Company issued and allotted 519,995,539 Subscription Shares and 194,290,175 Subscription Shares to Sinochem HK and PCS, respectively.

2. On 28 November 2007, the Company announced that it exercised the Option in respect of the acquisition of Sinochem Corporation's interests in Tianji JV (currently known as Tianji-Sinochem) and Sinochem Shandong. The Company entered into the Tianji Acquisition Agreement and Shandong Acquisition Agreement with Sinochem Corporation through Sinochem Fertilizer, a wholly-owned subsidiary of the Company, agreeing to acquire from Sinochem Corporation a 40% equity interest in Tianji JV (currently known as Tianji-Sinochem) and a 51% equity interest in Sinochem Shandong. The total consideration for the Tianji Acquisition was approximately RMB208,830,000, and the total consideration for the Shandong Acquisition was approximately RMB56,380,000. For detailed information in respect of the aforesaid transactions, please refer to the announcement dated 28 November 2007 and the circular dated 12 December 2007 published by the Company.

The Company has completed the acquisitions of Tianji-Sinochem and Sinochem Shandong on 30 January 2008 and 20 February 2008, respectively.

3. On 16 October 2007, the Company exercised its option right and entered into an acquisition agreement with Sinochem Corporation through Sinochem Fertilizer, a wholly-owned subsidiary of the Company, for the acquisition of 141,907,561 ordinary shares in Qinghai Salt Lake for a consideration of RMB47.49 per Sale Share. The total consideration was approximately RMB6,739,190,000. Upon the completion of the sale and purchase, Sinochem Fertilizer held 141,907,561 ordinary shares in Qinghai Salt Lake, representing approximately 18.49% of its total issued share capital, and became the second largest shareholder in Qinghai Salt Lake. The Sales Shares are circulating shares with selling restrictions. For detailed information in respect of the aforesaid transaction, please refer to the announcement dated 17 October 2007 and the circular dated 10 December 2007 published by the Company.

   On 17 March 2008, Sinochem Corporation has completed the transfer and registration of the Sale Shares in the name of Sinochem Fertilizer.

4. On 7 April 2008, Sinochem Fertilizer entered into the Jilin Acquisition Agreement with Jilin SASAC whereby Sinochem Fertilizer agreed to acquire from Jilin SASAC 100% of the equity interests of Jilin Fertilizer (currently known as Sinochem Changshan) at nil consideration. In addition, on the same date, Sinochem Fertilizer entered into the Jilin Capital Injection Agreement with Jilin Fertilizer (currently known as Sinochem Changshan) and Jilin SASAC whereby Sinochem Fertilizer and Jilin SASAC have agreed to inject further capital into Jilin Fertilizer (currently known as Sinochem Changshan). Upon completion of the Jilin Acquisition Agreement and the Jilin Capital Injection Agreement, Sinochem Fertilizer and Jilin SASAC hold 90.81% and 9.19% respectively of the enlarged registered capital of Jilin Fertilizer (currently known as Sinochem Changshan), and Jilin Fertilizer (currently known as Sinochem Changshan) became a subsidiary of the Company. For detailed information in respect of the aforesaid transaction, please refer to the announcement dated 7 April 2008 and the circular dated 25 April 2008 published by the Company.

5. On 15 June 2008, Sinochem Fertilizer entered into the Acquisition Agreement with, among others, the Vendors, County Investment Company and Pingyuan Government whereby Sinochem Fertilizer agreed to acquire and the Vendors agreed to sell an aggregate of 75% of the equity interests of Shandong Deqilong (currently known as Sinochem Pingyuan) at a total consideration of approximately RMB730,000,000. Such consideration was subsequently revised to RMB695,000,000. Upon Completion, Sinochem Fertilizer holds 75% of the equity interests of Shandong Deqilong (currently known as Sinochem Pingyuan), and Shandong Deqilong (currently known as Sinochem Pingyuan) became a subsidiary of the Company. For detailed information in respect of the aforesaid transaction, please refer to the announcement dated 15 June 2008 and the circular dated 7 July 2008 published by the Company.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

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 during the year.

Public Float

Based on the information publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has sufficient public float exceeding 25% of its issued share capital as required by the Listing Rules throughout the year ended 31 December 2008.

Remuneration Policy

The emoluments of the Directors of the Company are reviewed by the Remuneration Committee of the Company from time to time with reference to the qualifications, responsibilities, experience and performance of the individual Directors, and the operating results of the Group. Details of the remuneration policy of the Group are set out in the "Corporate Governance Report" from pages 43 to 44.

Retirement Benefits Scheme

Details of the retirement benefits schemes of the Group are set out in note 43 to the consolidated financial statements.

Housing Funds

The Group strictly complied with the regulations of the relevant region in respect of the contribution to the housing funds for its employees.

Post Balance Sheet Event

There was no significant event occurred after the balance sheet date.

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2008 have been audited by Messrs. Deloitte Touche Tohmatsu who retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Liu De Shu
Chairman

Hong Kong, 24 March 2009

Deloitte.
德勤

TO THE MEMBERS OF SINOFERT HOLDINGS LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 83 to 171, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
24 March 2009

Consolidated Income Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (restated)
Revenue	6	**45,392,885**	28,381,689
Cost of sales		**(41,991,515)**	(25,641,079)
Gross profit		**3,401,370**	2,740,610
Other income	7	**281,935**	139,743
Distribution and selling expenses		**(687,558)**	(586,136)
Administrative expenses		**(544,280)**	(276,154)
Other expenses		**(591,984)**	(10,525)
Share of results of associates		**104,138**	–
Share of results of jointly controlled entities		**18,311**	54,376
Finance costs	8	**(294,885)**	(279,604)
Changes in fair value of derivatives		**163,160**	(713,668)
Gain (loss) on settlement of convertible loan notes		**2,440**	(90,348)
Gain on deemed partial disposal of equity interest in a subsidiary		**17,438**	–
Discount on acquisition of a subsidiary		**214,152**	–
Profit before tax		**2,084,237**	978,294
Income tax expense	9	**(176,430)**	(316,400)
Profit for the year	10	**1,907,807**	661,894
Attributable to			
Equity holders of the Company		**1,912,555**	641,142
Minority interests		**(4,748)**	20,752
		1,907,807	661,894
Dividends			
– Proposed	13	**286,727**	187,629
– Paid	13	**171,984**	132,330
Earnings per share			
Basic (RMB)	14	**0.2739**	0.1069
Diluted (RMB)	14	**0.2490**	0.1065

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (restated)
Non-current Assets			
Investment properties	15	**14,600**	14,600
Long-term assets			
Property, plant and equipment	16	**4,580,533**	1,224,928
Other long-term assets	22	**46,801**	–
Prepaid lease payments	17	**512,240**	130,492
Mining right	18	**–**	23,759
Interests in associates	19	**7,063,039**	–
Interests in jointly controlled entities	20	**792,921**	578,168
Available-for-sale investments	21	**501,710**	1,177,962
Advance payment to ultimate holding company	27	**–**	2,099,753
Advance payment for acquisition of property, plant and equipment		**151,827**	133,468
Goodwill	23	**579,757**	333,829
Deferred tax assets	32	**189,265**	11,721
		14,432,693	5,728,680
Current Assets			
Inventories	25	**11,569,643**	6,705,370
Prepaid lease payments	17	**26,621**	2,831
Trade and bills receivables	26	**2,228,667**	3,248,090
Advance payment and other receivables		**1,699,218**	1,801,956
Amount due from ultimate holding company	27	**–**	7,589
Pledged bank deposits	28	**7,936**	7,487
Bank balances and cash	28	**160,302**	115,311
		15,692,387	11,888,634
Current Liabilities			
Trade and bills payables	29	**4,163,401**	2,075,189
Receipts in advance and other payables		**1,825,904**	1,789,019
Derivative financial instruments	30	**199,204**	615,549
Tax liabilities		**320,511**	147,961
Convertible loan notes	30	**587,166**	–
Borrowings – due within one year	31	**7,536,557**	3,493,406
		14,632,743	8,121,124
Net Current Assets		**1,059,644**	3,767,510
Total Assets less Current Liabilities		**15,492,337**	9,496,190

Consolidated Balance Sheet

At 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (restated)
Capital and Reserves			
Issued equity	33	**8,233,245**	3,078,496
Reserves		**5,718,344**	4,429,346
Equity attributable to shareholders of the Company		**13,951,589**	7,507,842
Minority interests		**418,776**	254,940
Total Equity		**14,370,365**	7,762,782
Non-current Liabilities			
Convertible loan notes	30	**–**	853,603
Borrowings – due after one year	31	**983,362**	692,500
Deferred income		**33,267**	8,798
Deferred tax liabilities	32	**105,343**	178,507
		1,121,972	1,733,408
		15,492,337	9,496,190

The consolidated financial statements on pages 83 to 171 were approved and authorized for issue by the Board of Directors on 24 March 2009 and are signed on its behalf by:

Liu De Shu
Director

Du Ke Ping
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2008

	Issued equity RMB'000	Merger reserve RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
		(Note a)	*(Note b)*	*(Note c)*							
At 1 January 2007 (restated and details set out in *note (2b)*)	816,982	255,531	281,115	315,807	26,997	5,555	(70,033)	2,736,843	4,368,797	196,538	4,565,335
Effects of business combination under common control *(note (2a))*	–	–	51,000	–	–	–	–	(16,417)	34,583	37,521	72,104
At 1 January 2007 (restated)	816,982	255,531	332,115	315,807	26,997	5,555	(70,033)	2,720,426	4,403,380	234,059	4,637,439
Gain on fair value changes of available-for-sale investments	–	–	–	–	728,345	–	–	–	728,345	–	728,345
Deferred taxation liability arising on fair value changes of available-for-sale investments	–	–	–	–	(169,465)	–	–	–	(169,465)	–	(169,465)
Exchange difference arising on translation of foreign operations	–	–	–	–	–	–	(231,263)	–	(231,263)	–	(231,263)
Total income and expense recognized directly in equity	–	–	–	–	558,880	–	(231,263)	–	327,617	–	327,617
Profit for the year	–	–	–	–	–	–	–	641,142	641,142	20,752	661,894
Net income and expense recognized for the year	–	–	–	–	558,880	–	(231,263)	641,142	968,759	20,752	989,511
Capital contribution from minority interest shareholders	–	–	–	–	–	–	–	–	–	761	761
Dividends paid	–	–	–	–	–	–	–	(132,330)	(132,330)	(632)	(132,962)
Recognition of equity-settled share-based payment	–	–	–	–	–	6,519	–	–	6,519	–	6,519
Transfer	–	–	–	68,264	–	–	–	(68,264)	–	–	–
Transaction costs attributable to issue of shares	(36,763)	–	–	–	–	–	–	–	(36,763)	–	(36,763)
Placement of new shares	2,284,881	–	–	–	–	–	–	–	2,284,881	–	2,284,881
Shares issued upon conversion of convertible loan notes	13,396	–	–	–	–	–	–	–	13,396	–	13,396
At 31 December 2007 (restated)	3,078,496	255,531	332,115	384,071	585,877	12,074	(301,296)	3,160,974	7,507,842	254,940	7,762,782

For the year ended 31 December 2008

	Issued equity	Merger reserve	Capital reserve	Statutory reserve	Investment revaluation reserve	Share option reserve	Translation reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		(Note a)	*(Note b)*	*(Note c)*							
At 31 December 2007 (restated)	3,078,496	255,531	332,115	384,071	585,877	12,074	(301,296)	3,160,974	7,507,842	254,940	7,762,782
Loss on fair value changes of available-for-sale investments	-	-	-	-	(616,000)	-	-	-	(616,000)	-	(616,000)
Deferred taxation liability arising on fair value changes of available-for-sale investments	-	-	-	-	134,324	-	-	-	134,324	-	134,324
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(77,156)	-	(77,156)	-	(77,156)
Total income and expense recognized directly in equity	-	-	-	-	(481,676)	-	(77,156)	-	(558,832)	-	(558,832)
Disposal of available-for-sale investments	-	-	-	-	(62,593)	-	-	-	(62,593)	-	(62,593)
Deferred taxation liability reversal on disposal of available-for-sale investments	-	-	-	-	15,648	-	-	-	15,648	-	15,648
Profit (loss) for the year	-	-	-	-	-	-	-	1,912,555	1,912,555	(4,748)	1,907,807
Net income and expense recognized for the year	-	-	-	-	(528,621)	-	(77,156)	1,912,555	1,306,778	(4,748)	1,302,030
Deemed distribution	-	-	(56,384)	-	-	-	-	-	(56,384)	-	(56,384)
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	159,327	159,327
Capital contribution from a minority interest shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	36,722	36,722
Disposal of a subsidiary	-	-	(180)	-	-	-	-	-	(180)	(9,465)	(9,645)
Dividends paid to minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	(18,000)	(18,000)
Deemed contribution from ultimate holding company *(note 19)*	-	-	210,000	-	-	-	-	-	210,000	-	210,000
Exercises of share options	14,563	-	-	-	-	(3,108)	-	-	11,455	-	11,455
Recognition of equity-settled share-based payment	-	-	-	-	-	3,876	-	-	3,876	-	3,876
Forfeiture of share options	-	-	-	-	-	(970)	-	970	-	-	-
Dividends paid	-	-	-	-	-	-	-	(171,984)	(171,984)	-	(171,984)
Placement of new shares	4,660,200	-	-	-	-	-	-	-	4,660,200	-	4,660,200
Shares issued upon conversion of convertible loan notes	479,986	-	-	-	-	-	-	-	479,986	-	479,986
At 31 December 2008	8,233,245	255,531	485,551	384,071	57,256	11,872	(378,452)	4,902,515	13,951,589	418,776	14,370,365

Notes:

(a) The merger reserve of the Group comprises of the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the holding companies as consideration for the group restructuring transactions in previous years.

(b) The capital reserve of the Group comprises of contributions from owners in respect of settlement of doubtful receivables (already written off) and transfer of equity interest in a jointly controlled entity to the Group in previous years.

(c) Statutory reserves comprise of statutory reserve fund and enterprise expansion fund. In accordance with relevant rules and regulation on foreign investment enterprise established in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to transfer a portion of their profit after income tax to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund may be distributed to shareholders in the form of bonus issue. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC.

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	RMB'000	*RMB'000*
		(restated)
OPERATING ACTIVITIES		
Profit before tax	**2,084,237**	978,294
Adjustments for		
Share of results of jointly controlled entities	**(18,311)**	(54,376)
Release of prepaid lease payments	**14,827**	2,265
Gain on disposal of available-for-sale investments	**(62,593)**	–
Depreciation of property, plant and equipment	**167,945**	91,509
Loss on disposal of property, plant and equipment	**1,191**	4,105
Share of results of associates	**(104,138)**	–
Interest income	**(32,734)**	(33,893)
Finance costs	**294,885**	279,604
Dividend income	**(7,527)**	(7,055)
Discount on acquisition of a subsidiary	**(214,152)**	–
Gain on disposal of a subsidiary	**(419)**	–
(Gain) loss on disposal of prepaid lease payments	**(9,512)**	1,989
Impairment losses and allowance provided (reversal) on receivables	**129**	(93)
(Gain) loss on settlement of convertible loan notes	**(2,440)**	90,348
Gain on deemed partial disposal of equity interest in a subsidiary	**(17,438)**	–
Fair value changes in derivative financial instruments	**(163,160)**	713,668
Provision (written-back) for inventories recognized	**484,923**	(8,726)
Amortization of other long-term assets	**4,922**	–
Recognition of share-based payment expenses	**3,876**	5,887
Operating cash flows before movements in working capital	**2,424,511**	2,063,526
Increase in inventories	**(5,438,099)**	(2,514,664)
Decrease (increase) in trade and bills receivables	**1,091,485**	(705,196)
Decrease (increase) in advance payments and other receivables	**472,701**	(547,906)
Increase in trade and bills payables	**1,544,259**	352,935
(Decrease) increase in receipts in advance and other payables	**(1,432,474)**	860,241
Decrease in amount due from ultimate holding company	**7,589**	31,730
Cash used in operations	**(1,330,028)**	(459,334)
Income tax paid	**(522,578)**	(240,430)
NET CASH USED IN OPERATING ACTIVITIES	**(1,852,606)**	(699,764)

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	Notes	2008 RMB'000	2007 RMB'000 (restated)
INVESTING ACTIVITIES			
Additions of prepaid lease payments		**(9,088)**	–
Acquisition of associates		**(4,897,433)**	–
Additions to property, plant and equipment		**(613,442)**	(190,860)
Acquisition of subsidiaries	44	**(592,816)**	–
Purchases of available-for-sale investments		**(27,460)**	(155,665)
Advance payment made to ultimate holding company for acquisition of equity investment		**–**	(2,099,753)
Acquisition of other long-term assets		**(24,747)**	–
Increase in advance payment made for acquisition of property, plant and equipment		**(18,359)**	(133,468)
Additional investments in jointly controlled entities		**(181,660)**	(140,341)
Capital contributed by minority shareholders of subsidiaries		**–**	761
Dividends received on unlisted investments		**7,527**	7,055
Dividends received from associates		**170,289**	–
Proceeds from disposal of prepaid lease payments		**11,485**	1,727
Interest received		**32,734**	33,893
Proceeds from disposal of a subsidiary	45	**13,900**	–
Proceeds from disposal of available-for-sale investments		**88,771**	–
Proceeds from disposal of property, plant and equipment		**44,729**	7,078
(Increase) decrease in pledged bank deposits		**(449)**	19,226
NET CASH USED IN INVESTING ACTIVITIES		**(5,996,019)**	(2,650,347)
FINANCING ACTIVITIES			
Interest paid		**(286,966)**	(221,642)
Receipts of government grants for acquisition of property, plant and equipments		**24,469**	8,798
Net proceeds from issuance of shares		**4,660,200**	2,248,249
Proceeds from exercises of options		**11,455**	–
Proceeds from bank loans		**11,024,012**	8,339,715
Repayment of bank loans		**(7,341,117)**	(6,237,326)
Repayment of convertible loan notes		**(13,266)**	(631,858)
Dividends paid		**(171,984)**	(132,330)
Dividends paid to minority shareholders of a subsidiary		**(18,000)**	–
NET CASH FROM FINANCING ACTIVITIES		**7,888,803**	3,373,606
NET INCREASE IN CASH AND CASH EQUIVALENTS		**40,178**	23,495
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**115,311**	88,882
Effect of foreign exchange rate changes		**4,813**	2,934
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash		**160,302**	115,311

1. General

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

The principal activity of the Company is investment holding and those of its subsidiaries are set out in note 41.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). In addition, the consolidated financial statements include applicable disclosure required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and by the Hong Kong Companies Ordinance.

(a) Business combination under common control

On 20 February 2008, Sinochem Fertilizer Company Limited, a company incorporated in the PRC, an indirectly wholly-owned subsidiary of the Company, has completed its acquisition of 51% equity interest in Sinochem Shandong Chemical Fertilizer Company Limited ("Sinochem Shandong"), a limited liability company established in the PRC, from Sinochem Corporation at a cash consideration of approximately RMB56,380,000.

The transfer of the controlling interest in Sinochem Shandong as mentioned above is regarded as a business combination involving entities or businesses under common control. Accordingly, the transaction is accounted for using the principles of merger accounting as set out in Accounting Guideline 5 "Merger Accounting for Common Control Combinations" issued by the HKICPA, as if the transfer of the controlling interest in Sinochem Shandong has been completed as at the date of its incorporation. Accordingly, the comparative figures of the consolidated financial statements have been restated.

2. Basis of preparation (Continued)

(b) Change in presentation currency

As part of the Group's financial management, the Group performs regular review on the appropriateness of the presentation currency. Effective from 1 January 2008, the Group has changed its presentation currency for the preparation of its consolidated financial statements from Hong Kong dollars ("HK$") to Renminbi ("RMB") in light of the increase in application of RMB in terms of sources of income, expenses and funding after considering the Group's on-going and future business strategies and acquisitions of subsidiaries and associates during the period. The comparative figures in these consolidated financial statements are translated from HK$ to RMB using the closing rate at the relevant balance sheet date for balance sheet items, average rates for the period under review for income statement and cash flow statement and historical rates for the statement of changes in equity.

The effects of the combination of Sinochem Shandong and the change in presentation currency on the results of the Group for the year ended 31 December 2007 and the financial position of the Group at 31 December 2007 are summarized below:

	For the year ended 31 December 2007 (previously stated) *HK$'000*	Effects of change of presentation currency *RMB'000*	For the year ended 31 December 2007 *RMB'000*	Combination of Sinochem Shandong *RMB'000*	Combination & elimination adjustments *RMB'000*	For the year ended 31 December 2007 (restated) *RMB'000*
Revenue	29,436,834	(802,154)	28,634,680	624,833	(877,824)	28,381,689
Cost of sales	(26,667,629)	726,693	(25,940,936)	(571,508)	871,365	(25,641,079)
Gross profit	2,769,205	(75,461)	2,693,744	53,325	(6,459)	2,740,610
Other income	143,545	(3,907)	139,638	105	–	139,743
Distribution and selling expenses	(585,010)	15,942	(569,068)	(17,068)	–	(586,136)
Administrative expenses	(268,278)	7,388	(260,890)	(15,264)	–	(276,154)
Other expenses	(9,769)	265	(9,504)	(1,021)	–	(10,525)
Share of results of jointly controlled entities	55,899	(1,523)	54,376	–	–	54,376
Finance costs	(268,849)	7,322	(261,527)	(18,077)	–	(279,604)
Changes in fair value of derivatives	(733,623)	19,955	(713,668)	–	–	(713,668)
Loss on settlement of convertible loan notes	(92,873)	2,525	(90,348)	–	–	(90,348)
Profit before tax	1,010,247	(27,494)	982,753	2,000	(6,459)	978,294
Income tax expense	(324,777)	12,027	(312,750)	(3,650)	–	(316,400)
Profit for the year	685,470	(15,467)	670,003	(1,650)	(6,459)	661,894
Attributable to						
– Equity holders of the Company	663,306	(14,863)	648,443	(842)	(6,459)	641,142
– Minority interests	22,164	(604)	21,560	(808)	–	20,752
	685,470	(15,467)	670,003	(1,650)	(6,459)	661,894

2. Basis of preparation (Continued)

	At 31 December 2007 (previously stated) HK$'000	Effects of change of presentation currency RMB'000	At 31 December 2007 RMB'000	Combination of Sinochem Shandong RMB'000	Combination & elimination adjustments RMB'000	At 31 December 2007 (restated) RMB'000
Non-current assets	5,857,030	(373,305)	5,483,725	241,775	3,180	5,728,680
Current assets						
Inventories	6,943,248	(441,593)	6,501,655	216,436	(12,721)	6,705,370
Prepaid lease payments	2,362	(152)	2,210	621	–	2,831
Trade and bills receivables	3,472,060	(220,826)	3,251,234	1,072	(4,216)	3,248,090
Advance payment and other receivables	1,902,221	(120,176)	1,782,045	61,654	(41,743)	1,801,956
Amount due from ultimate holding company	8,104	(515)	7,589	–	–	7,589
Pledged bank deposits	7,996	(509)	7,487	–	–	7,487
Bank balances and cash	114,012	(7,251)	106,761	8,550	–	115,311
	12,450,003	(791,022)	11,658,981	288,333	(58,680)	11,888,634
Current liabilities						
Trade and bills payables	2,117,647	(134,683)	1,982,964	96,441	(4,216)	2,075,189
Receipts in advance and other payables	1,881,728	(119,678)	1,762,050	68,712	(41,743)	1,789,019
Derivative financial instruments	657,357	(41,808)	615,549	–	–	615,549
Tax liabilities	152,651	(9,709)	142,942	5,019	–	147,961
Borrowings – due within one year	3,559,811	(226,405)	3,333,406	160,000	–	3,493,406
	8,369,194	(532,283)	7,836,911	330,172	(45,959)	8,121,124
Net current assets	4,080,809	(258,739)	3,822,070	(41,839)	(12,721)	3,767,510
Non-current liabilities	1,717,651	(109,243)	1,608,408	125,000	–	1,733,408
Net assets	8,220,188	(522,801)	7,697,387	74,936	(9,541)	7,762,782
Total equity	8,220,188	(522,801)	7,697,387	74,936	(9,541)	7,762,782

2. Basis of preparation (Continued)

The effects of the combination of Sinochem Shandong and the change in presentation currency on the Group's equity at 1 January 2007 are summarized below:

	At 1 January 2007 (previously stated)	Effects of change of presentation currency	At 1 January 2007	Combination of Sinochem Shandong	At 1 January 2007 (restated)
	HK$'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Issued equity	767,766	49,216	816,982	–	816,982
Merger reserve	245,632	9,899	255,531	–	255,531
Capital reserve	270,225	10,890	281,115	51,000	332,115
Statutory reserve	303,948	11,859	315,807	–	315,807
Investment revaluation reserve	26,871	126	26,997	–	26,997
Share option reserve	5,421	134	5,555	–	5,555
Translation reserve	88,684	(158,717)	(70,033)	–	(70,033)
Retained profits	2,639,805	97,038	2,736,843	(16,417)	2,720,426
Minority interests	195,619	919	196,538	37,521	234,059
	4,543,971	21,364	4,565,335	72,104	4,637,439

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following amendments and interpretations ("new HKFRSs") issued by the HKICPA which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HK (IFRIC)-Int 11	HKFRS 2: Group and Treasury Share Transactions
HK (IFRIC)-Int 12	Service Concession Arrangements
HK (IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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.

3. Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (Continued)

The Group has not early adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of Financial Statements[2]
HKAS 23 (Revised)	Borrowing Costs[2]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
HKAS 39 (Amendment)	Eligible Hedged Items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
HKFRS 3 (Revised)	Business Combinations[3]
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[2]
HKFRS 8	Operating Segments[2]
HK(IFRIC) – Int 9 & HKAS 39 (Amendments)	Embedded Derivatives[4]
HK (IFRIC) – Int 13	Customer Loyalty Programmes[5]
HK (IFRIC) – Int 15	Agreements for the Construction of Real Estate[2]
HK (IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[6]
HK (IFRIC) – Int 17	Distribution of Non-cash Assets to Owners[3]
HK (IFRIC) – Int 18	Transfer of Assets from Customers[7]

1 Effective for annual periods beginning on or after 1 January 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

2 Effective for annual periods beginning on or after 1 January 2009

3 Effective for annual periods beginning on or after 1 July 2009

4 Effective for annual periods ending on or after 30 June 2009

5 Effective for annual periods beginning on or after 1 July 2008

6 Effective for annual periods beginning on or after 1 October 2008

7 Effective for transfers on or after 1 July 2009

The application of HKFRS 3 (Revised) may affect the Group's accounting for non-common control business combination for which the acquisition date is on or after 1 January 2010. HKAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company are in the process of making an assessment of the impact of these standards, amendments or interpretations.

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.

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 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 in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated upon 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 interests 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.

Business combinations

Non-common control combinations

The acquisition of businesses 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 recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized 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 recognized. 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 recognized immediately in profit or loss.

4. Significant accounting policies (Continued)

Business combinations (Continued)

Non-common control combinations (Continued)

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 recognized.

Combinations under common control of ultimate holding company

Business combinations under common control of the ultimate holding company are accounted for in accordance with the Accounting Guideline 5 "Merger Accounting for Common Control Combinations". In applying merger accounting, the consolidated financial statements incorporate the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the common control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognized in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the consolidated financial statements are presented as if the entities or businesses had been combined at the previous balance sheet date or when they first came under common control, whichever is shorter.

Business combination achieved in stages

When a business combination involves more than one exchange transaction, each exchange transaction is treated separately by the Group, using the cost of the transaction and fair value information at the date of each exchange transaction to determine the amount of any goodwill associated with that transaction. Any adjustment to those fair values relating to previously held interests of the Group is credited to the revaluation reserve.

Before qualifying as a business combination, a transaction qualified as an investment in a jointly controlled entity and was accounted for in accordance with HKAS31 Interests in Joint Ventures using the equity method. The fair values of the investee's identifiable net assets at the date of each earlier exchange transaction have been previously determined throughout the application of equity method.

4. Significant accounting policies (Continued)

Goodwill

Goodwill arising on an acquisition of a business 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 business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

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

For the purposes of impairment testing, goodwill arising from an acquisition 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 recognized directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalized is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

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

4. Significant accounting policies (Continued)

Investments in associates (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognized at the date of acquisition is recognized as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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 recognized immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and unrealized profits or losses are eliminated to the extent of the Group's interest in the associate except to the extent that unrealized losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognized.

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 net assets 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 entity), the Group discontinues recognizing its share of further losses. An additional share of losses is provided for and a liability is recognized 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 recognized immediately in profit or loss.

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

Revenue recognition

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

4. Significant accounting policies (Continued)

Revenue recognition (Continued)

Sales of goods

- wholesales are recognized 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 recognized when the title of goods has passed to the customer. Retail sales are usually settled in cash.

Service income is recognized when services are rendered.

Rental income is recognized 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 recognized when the shareholders' rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment held for the use in the production or supply of goods and services, or for administrative purposes, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment other than construction in progress over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized 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 derecognized.

4. Significant accounting policies (Continued)

Other long term assets

Other long-term assets are stated at cost less subsequent accumulated amortization and accumulated impairment losses.

Amortization is provided using the straight-line method.

Prepaid lease payments

Prepaid lease payments represent payments for leasehold interests in land under operating lease arrangements and are released to consolidated income statement over the term of relevant land leases.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

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 or loss for the period in which they arise.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposal. 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 item is derecognized.

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.

Rental income from operating leases is recognized in the consolidated income statement on a straight-line basis over the term of the relevant lease.

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 recognized as a reduction of rental expense over the lease term on a straight-line basis.

4. Significant accounting policies (Continued)

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 recognized in profit or loss in the period in which they arise. 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 recognized directly in equity, in which case, the exchange differences are also recognized directly in equity.

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. Renminbi) 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 recognized as a separate component of equity (the translation reserve). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets and liabilities 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 recognized in the translation reserve.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalized as part of the cost of those assets. Capitalization 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 capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

4. Significant accounting policies (Continued)

Government grants

Government grants are recognized 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 recognized in the same period as those expenses are charged to the consolidated income statement and are reported separately as 'other income'.

Retirement benefit costs

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

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated 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 tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated 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 tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized 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 tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, associates 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 tax 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 tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realized. Deferred tax 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 tax 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 amortization and any accumulated impairment losses. Amortization for mining right is provided on the unit-of-production basis over the total proven reserve 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 is recognized in the consolidated income statement when the asset is derecognized.

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated 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 recognized immediately in profit or loss.

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 recognized and derecognized 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.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Effective interest method (Continued)

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 receivables, other receivables, amount due from ultimate holding company, pledged bank deposits and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment loss (see accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

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

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, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets of the Group are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been negatively affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Effective interest method (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, an impairment loss is recognized 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount 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 loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in equity.

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 Group's financial liabilities are other financial liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Convertible loan notes

Convertible loan notes issued by the Company are regarded as hybrid 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 conversion component is an embedded derivative. 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 amortized 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 recognized at their respective fair values.

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

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

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and borrowings are subsequently measured at amortized cost, using the effective interest method.

4. Significant accounting policies (Continued)

Financial instruments (Continued)

Financial liabilities and equity (Continued)

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognized 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 recognized in profit or loss immediately.

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 recognized in profit or loss.

Derecognition

Financial assets are derecognized 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 receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

Financial liabilities are recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized 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 option 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 during the vesting period, if any, is recognized in profit or loss, with a corresponding adjustment to share option reserve.

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

5. Key sources of estimation uncertainty

In the application of the Group's accounting policies which are described in note 4, directors of the Company has made judgments, estimates and assumptions concerning the future that have a significant risk of material adjustments on the amounts recognized in the consolidated financial statements within the next financial year.

Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in customer preferences and competitor actions in response to severe industry cycles. Directors of the Company reassess these estimates at each balance sheet date.

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 could materially affect the fair value estimate.

6. Business and geographical segments

For management reporting purposes, the Group is currently organized into two 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 fertilizers and agricultural related products
Production	–	production and sale of fertilizers

6. Business and geographical segments (Continued)

Segment information about these business is as follows:

(a) Business segments

2008

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
TURNOVER				
External sales	42,021,100	3,371,785	–	45,392,885
Inter-segment sales	14,231,582	2,754,886	(16,986,468)	–
Total	56,252,682	6,126,671	(16,986,468)	45,392,885

Inter-segment sales are charged at prevailing market rates.

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
RESULTS				
Segment results	1,900,861	(241,117)		1,659,744
Unallocated corporate incomes				277,504
Unallocated corporate expenses				(60,327)
Share of results of associates	–	104,138		104,138
Share of results of jointly controlled entities	–	18,311		18,311
Finance costs				(294,885)
Changes in fair value of derivatives				163,160
Gain on cash settlement of convertible loan notes				2,440
Discount on acquisition of a subsidiary	–	214,152		214,152
Profit before tax				2,084,237
Income tax expense				(176,430)
Profit for the year				1,907,807

6. Business and geographical segments (Continued)

(a) Business segments (Continued)

2008 (Continued)

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Total *RMB'000*
ASSETS			
Segment assets	13,416,510	7,949,767	21,366,277
Interests in associates	–	7,063,039	7,063,039
Interests in jointly controlled entities	–	792,921	792,921
Available-for-sale investments			501,710
Deferred tax assets			189,265
Unallocated corporate assets			211,868
Consolidated total assets			30,125,080
LIABILITIES			
Segment liabilities	3,937,020	2,073,215	6,010,235
Deferred tax liabilities			105,343
Unallocated corporate liabilities			9,639,137
Consolidated total liabilities			15,754,715
OTHER INFORMATION			
Capital expenditure	10,787	659,768	670,555
Depreciation and amortization	7,278	180,416	187,694

6. Business and geographical segments (Continued)

(a) Business segments (Continued)

2007

	(Restated)			
	Sourcing and distribution	Production	Eliminations	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER				
External sales	26,414,945	1,966,744	–	28,381,689
Inter-segment sales	455,155	1,281,984	(1,737,139)	–
Total	26,870,100	3,248,728	(1,737,139)	28,381,689

Inter-segment sales are charged at prevailing market rates.

	Sourcing and distribution	Production	Eliminations	Total
RESULTS				
Segment results	1,884,269	6,002		1,890,271
Unallocated corporate incomes				143,097
Unallocated corporate expenses				(25,830)
Share of results of jointly controlled entities	–	54,376		54,376
Finance costs				(279,604)
Changes in fair value of derivatives				(713,668)
Loss on settlement of convertible loan notes				(90,348)
Profit before tax				978,294
Income tax expense				(316,400)
Profit for the year				661,894

6. Business and geographical segments (Continued)

(a) Business segments (Continued)

2007 (Continued)

	(Restated)		
	Sourcing and distribution *RMB'000*	Production *RMB'000*	Total *RMB'000*
ASSETS			
Segment assets	11,793,856	2,887,096	14,680,952
Interests in jointly controlled entities	–	578,168	578,168
Available-for-sale investments			1,177,962
Deferred tax assets			11,721
Unallocated corporate assets			1,168,511
Consolidated total assets			17,617,314
LIABILITIES			
Segment liabilities	2,567,453	1,302,280	3,869,733
Deferred tax liability			178,507
Unallocated corporate liabilities			5,806,292
Consolidated total liabilities			9,854,532
OTHER INFORMATION			
Capital expenditure	7,129	199,252	206,381
Depreciation and amortization	7,002	86,772	93,774

(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 of the PRC.

Total assets and capital expenditure by geographical segments are based on 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 of the PRC.

7. Other income

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Rental income	**2,017**	2,020
Dividend income from available-for-sale investments	**7,527**	7,055
Interest income from bank deposits	**32,734**	33,893
Government grants *(Note 1)*	**58,917**	69,717
Exchange gain *(Note 2)*	**31,325**	2,662
Gain on disposal of available-for-sale investments	**62,593**	–
Gain on disposal of prepaid lease payments	**9,512**	–
Compensation received	**11,512**	7,243
Sales of scrapped materials	**48,028**	7,922
Others	**17,770**	9,231
	281,935	139,743

Notes:

1: The amounts in 2008 and 2007 mainly comprised of income tax refund in respect of using dividends to reinvest in the entity in the PRC by foreign investor in accordance with the Income Tax Law of the PRC for Enterprises with Foreign Investment and Foreign Enterprises, the amount in 2008 also included government subsidies related to the Group's operations in the PRC.

2: The exchange gain has mainly been arising from the trade payables and borrowings denominated in US dollars to purchase raw materials.

8. Finance costs

	2008 RMB'000	2007 RMB'000 (restated)
Interests on bank borrowings wholly repayable		
– within five years	**282,652**	221,638
– after five years	**4,314**	4
Interest expense on convertible loan notes wholly repayable within five years	**40,164**	73,483
Total borrowing costs	**327,130**	295,125
Less: amounts capitalized	**(32,245)**	(15,521)
	294,885	279,604

Note: Borrowing costs capitalized during the year arose on the general borrowing pool and are calculated by applying a capitalization rate of 7.10% (2007: 6.69%) to expenditure on qualifying assets.

9. Income tax expense

	2008 RMB'000	2007 RMB'000 (restated)
Current tax		
Hong Kong Profits Tax	**28,670**	19,573
PRC enterprise income tax	**324,825**	313,013
	353,495	332,586
Deferred tax *(note 32)*		
Current year	**(177,065)**	(17,702)
Attributable to a change in tax rate	**–**	1,516
Income tax expense	**176,430**	316,400

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profit tax rate from 17.5% to 16.5% effective from the year of assessment 2008/2009. Therefore, Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year.

9. Income tax expense (Continued)

On 16 March 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations have changed 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 realized or the liability is settled.

Sinochem Chongqing Fuling Chemical Fertilizer Company Limited ("Sinochem Fuling"), a 60% indirectly owned subsidiary of the Company, 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.

According to the New Law, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax at a rate of 10% for foreign investors. The Company has determined that those profits earned by PRC subsidiaries will not be distributed oversea in the foreseeable future.

No provision for income tax has been made for certain subsidiaries of the Company in jurisdictions 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:

	2008 ***RMB'000***	2007 *RMB'000* (restated)
Profit before tax	**2,084,237**	978,294
Tax calculated at the main applicable tax rate of 25% (2007: 33%)	**(521,059)**	(322,837)
Tax effect of expenses not deductible for tax purposes	**(789)**	(268,636)
Tax effect of preferential tax rate	**217,059**	216,964
Tax effect of incomes not taxable for tax purposes	**118,411**	37,750
Tax effect of share of results of jointly controlled entities	**4,578**	17,944
Tax effect of share of results of associates	**26,035**	–
Effect of different income tax rates in other jurisdictions	**7,933**	32,221
Effect of tax loss not recognized	**(30,067)**	(31,073)
Others	**1,469**	1,267
Income tax expense for the year	**(176,430)**	(316,400)

10. Profit for the year

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Profit for the year has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**167,945**	91,509
Release of prepaid lease payments	**14,827**	2,265
Amortization of other long-term assets	**4,922**	–
Auditors' remuneration	**11,211**	7,841
Directors' emoluments *(see note 11)*	**11,825**	9,836
Staff benefits *(Note 1)*	**322,949**	166,090
Total employee benefits expenses	**334,774**	175,926
Minimum lease payments under operating lease in respect of properties	**35,863**	23,492
Direct operating expenses arising from investment properties that generate rental income	**444**	389
Provision (reversal of provision) for impairment of receivables	**129**	(93)
Loss on disposal of property, plant and equipment	**1,191**	4,105
(Gain) loss on disposal of prepaid lease payments	**(9,512)**	1,989
Write-down (reversal of write-down) of inventories *(Note 3)*	**484,923**	(8,726)
Donation of water supply fund *(Note 2)*	**100,000**	–

Notes:

1: Included in staff benefits are share-based payments and contribution to retirement benefits scheme for the year of RMB3,876,000 (2007: RMB6,519,000) and RMB29,201,000 (2007: RMB18,371,000) respectively.

2: During the year, the Company's PRC subsidiary has made RMB100,000,000 donation of local water supply fund in order to support the ongoing local environmental protection project.

3: During the year, there was a significant decrease in the net realizable value of fertilizers due to the decrease of market price. As a result, a write-down of RMB484,923,000 in inventory has been recognized in other expenses. In 2007, there was a reversal of write-down of inventories of RMB8,726,000 recognized.

11. Directors' remuneration

Directors' emoluments and employees' emoluments

Directors

The emoluments paid or payable to each of the directors were as follows:

	2008					
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* (Note)	Retirement benefits scheme contribution *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
Mr. Liu De Shu	–	–	–	–	221	221
Mr. Song Yu Qing	–	–	–	–	152	152
Mr. Du Ke Ping	–	1,565	4,171	33	385	6,154
Mr. Harry Yang	–	1,850	1,706	–	198	3,754
Dr. Chen Guo Gang	–	–	–	–	152	152
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Wade Fetzer III	–	–	–	–	71	71
Mr. Ko Ming Tung, Edward	416	–	–	–	–	416
Dr. Tang Tin Sek	416	–	–	–	–	416
Mr. Tse Hau Yin Aloysius	489	–	–	–	–	489
	1,321	3,415	5,877	33	1,179	11,825

11. Directors' remuneration (Continued)

Directors' emoluments and employees' emoluments (Continued)

Directors (Continued)

	2007 (restated)					
	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefits scheme contribution	Share-based payments	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(Note)			
Mr. Liu De Shu	–	–	–	–	445	445
Mr. Song Yu Qing	–	–	–	–	339	339
Mr. Du Ke Ping	–	1,427	1,715	30	1,072	4,244
Mr. Harry Yang	–	1,699	1,071	–	356	3,126
Dr. Chen Guo Gang	–	–	–	–	339	339
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Wade Fetzer III	–	–	–	–	27	27
Mr. Ko Ming Tung, Edward	413	–	–	–	–	413
Dr. Li Ka Cheung, Eric (retired on 28 June 2007)	243	–	–	–	–	243
Dr. Tang Tin Sek	413	–	–	–	–	413
Mr. Tse Hau Yin Aloysius (appointed on 28 June 2007)	247	–	–	–	–	247
	1,316	3,126	2,786	30	2,578	9,836

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

No directors waived any emolument in the year ended 31 December 2008.

12. Employees' remuneration

Of the five individuals with the highest emoluments in the Group, two (2007: two) were directors of the Company, whose emoluments are included as disclosed in note 11 above. The emoluments of the remaining three (2007: three) individuals were as follows:

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Salaries and other benefits	1,759	2,558
Performance related incentive payments	4,234	1,818
Retirement benefits scheme contributions	98	89
Share-based payments	359	949
	6,450	5,414

Their emoluments were within the following bands:

	Number of employee(s)	
	2008	2007
RMB1,000,001 to RMB1,500,000	–	3
RMB1,500,001 to RMB2,000,000	2	–
RMB3,000,001 to RMB3,500,000	1	–

13. Dividends

The final dividend of HK$0.0464 (equivalent to approximately RMB0.0409) (2007: HK$0.0276, equivalent to approximately RMB0.0272) per share, total dividend approximately RMB286,727,000 (2007: RMB187,629,000), has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Dividends recognized as distribution during the year:		
Final dividend for 2007, paid HK$0.0276 (equivalent to approximately RMB0.0272) (for 2006: HK$0.0231 (equivalent to approximately RMB0.0228))	**171,984**	132,330
Proposed final dividend of HK$0.0464 (equivalent to approximately RMB0.0409) (2007: HK$0.0276 (equivalent to approximately RMB0.0272)) per share	**286,727**	187,629

14. 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:

	2008 RMB'000	2007 RMB'000 (restated)
Earnings		
Earnings for the purpose of basic earnings per share	**1,912,555**	641,142
Effect of dilutive potential ordinary shares:		
Interest expense on convertible loan notes	**40,164**	–
Changes in fair value of derivatives	**(163,160)**	–
Gain on settlement of convertible loan notes	**(2,440)**	–
Earnings for the purposes of diluted earnings per share	**1,787,119**	641,142
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of shares for the purpose of basic earnings per share	**6,983,421**	6,000,022
Effect of dilutive potential shares		
– share options	**14,160**	18,761
– convertible loan notes	**178,454**	–
Weighted average number of shares for the purpose of diluted earnings per share	**7,176,035**	6,018,783

The computation of diluted earnings per share for 2007 does not assume the conversion of the Company's outstanding convertible loan notes as the effect of conversion of these notes was anti-dilutive in 2007.

15. Investment properties

	At 1 January 2008 and 31 December 2008 *RMB'000* (restated)
Fair value	**14,600**

The investment properties of the Group are located in the PRC.

The fair value of the Group's investment properties at 31 December 2008 has been arrived at on the basis of a valuation carried out on the date by Jones Lang LaSalle Sallmanns Limited, an independent professionally qualified valuer not connected with the Group. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the similar locations and conditions.

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.

16. Property, plant and equipment

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture & fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2007 (restated and details set out in note (2b))	275,671	424,558	31,964	99,942	210,274	1,042,409
Effect of business combination under common control	130,588	104,209	3,870	1,344	99	240,110
At 1 January 2007 (restated)	406,259	528,767	35,834	101,286	210,373	1,282,519
Exchange realignment	–	(210)	(115)	(262)	–	(587)
Additions	269	3,665	2,006	5,880	194,561	206,381
Transfer from construction in progress	29,069	41,522	–	6,016	(76,607)	–
Eliminated on disposals	(6,740)	(9,152)	(3,264)	(1,114)	–	(20,270)
At 31 December 2007 (restated)	428,857	564,592	34,461	111,806	328,327	1,468,043
Exchange realignment	–	(128)	(97)	(247)	–	(472)
Eliminated on disposals	(1,447)	(55,218)	(2,067)	(1,623)	(472)	(60,827)
Additions	9,357	38,133	8,787	11,816	577,594	645,687
Acquired on acquisition of subsidiaries	892,281	1,394,258	13,892	3,834	620,639	2,924,904
Transfer from construction in progress	34,440	45,118	–	5,821	(85,379)	–
Disposal of a subsidiary	–	(450)	–	–	–	(450)
As at 31 December 2008	**1,363,488**	**1,986,305**	**54,976**	**131,407**	**1,440,709**	**4,976,885**
Accumulated depreciations						
At 1 January 2007 (restated and details set out in note (2b))	15,828	70,222	9,183	41,954	–	137,187
Effect of business combination under common control	8,527	13,658	1,168	416	–	23,769
At 1 January 2007 (restated)	24,355	83,880	10,351	42,370	–	160,956
Exchange realignment	–	(99)	(61)	(103)	–	(263)
Charge for the year	16,651	54,950	4,523	15,385	–	91,509
Eliminated on disposals	(399)	(5,232)	(2,402)	(1,054)	–	(9,087)
At 31 December 2007 (restated)	40,607	133,499	12,411	56,598	–	243,115
Exchange realignment	–	(62)	(29)	371	–	280
Charge for the year	40,505	103,309	5,968	18,163	–	167,945
Eliminated on disposal of a subsidiary	–	(81)	–	–	–	(81)
Eliminated on disposals	(1,254)	(9,891)	(1,743)	(2,019)	–	(14,907)
As at 31 December 2008	**79,858**	**226,774**	**16,607**	**73,113**	**–**	**396,352**
Carrying values						
At 31 December 2007 (restated)	388,250	431,093	22,050	55,208	328,327	1,224,928
As at 31 December 2008	**1,283,630**	**1,759,531**	**38,369**	**58,294**	**1,440,709**	**4,580,533**

16. Property, plant and equipment (Continued)

The above items of property, plant and equipment other than construction in progress are depreciated on a straight-line basis based on the following expected useful lives:

Category	**Years of depreciation**
Buildings	20-30 years
Plant, machinery and equipment	10-14 years
Motor vehicles	8 years
Furniture and fixtures	4 years

17. Prepaid lease payments

	2008	2007
	RMB'000	*RMB'000*
		(restated)
The Group's prepaid lease payments comprise		
Leasehold land in the PRC		
Long lease	**179,622**	73,722
Medium-term lease	**359,239**	59,601
	538,861	133,323
Analysis for reporting purposes as		
Current asset	**26,621**	2,831
Non-current asset	**512,240**	130,492
	538,861	133,323

18. Mining right

The mining right on a phosphate reserve was acquired on 27 October 2005 and was stated at cost which, in the opinion of directors, represents a close approximation to its fair value. During the year, the mining right has been derecognized upon disposal of a subsidiary as set out in note 45.

19. Interests in associates

	2008 RMB'000	2007 RMB'000 (restated)
Cost of investments in associates		
Listed in the PRC	**6,778,901**	–
Unlisted	**180,000**	–
Share of post-acquisition profits, net of dividends received	**104,138**	–
	7,063,039	–
Fair value of listed investments	**8,092,988**	–

As at 31 December 2008, the Group had interests in the following associates:

Name of entity	Form of business structure	Place/ Country of incorporation	Principal place of operation	Class of share held	Proportion of nominal value of issued capital/ registered capital held by the Group	Proportion of voting power held	Principal activity
Qinghai Salt Lake Potash Co., Ltd. 青海鹽湖鉀肥股份有限公司	Incorporated	PRC	PRC	Ordinary	18.49%	18.49%	Production and sales of fertilizers
Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. 貴州鑫新工農貿易有限公司	Incorporated	PRC	PRC	Ordinary	30%	30%	Production and sales of phosphorous

19. Interests in associates (Continued)

The summarized financial information in respect of the Group's associates is set out below:

	2008
	RMB'000
Total assets	**7,501,177**
Total liabilities	**(3,071,227)**
Net assets	**4,429,950**
Group's share of net assets of associates	**1,017,301**
Revenue	**3,457,676**
Profit for the period	**537,447**
Group's share of result of associates for the year	**104,138**

Included in the cost of investments in associates is goodwill of approximately RMB6,046 million (2007: Nil) arising on acquisitions of associates in current year.

During the year, the Group completed its acquisition of 18.49% equity interest in Qinghai Salt Lake Potash Co., Ltd. ("Qinghai Salt Lake"), a joint stock limited liability company whose shares are listed on the Shenzhen Stock Exchange, at a total cash consideration of RMB6,739 million from Sinochem Corporation. In the opinion of the directors, as the Group is the second largest shareholder of Qinghai Salt Lake and that the Group has the right to nominate two executive directors out of seven executive directors of Qinghai Salt Lake, the Group is able to exercise significant influence over the operations of Qinghai Salt Lake. Accordingly, such investment is accounted for as interest in an associate in the consolidated financial statements of the Group.

Pursuant to the share transfer agreement, the Group agrees to be bound by the terms of the lock-up undertaking, under which the shares acquired shall not be traded or transferred until 29 June 2010. With the consideration of the lock-up undertaking, the Group has evaluated the fair value of the equity interest by applying the Black-Scholes Model, with input based on management's estimates. The fair value of the equity interest is determined to be RMB6,949 million and the difference between the purchase price and the fair value recognized of RMB210 million is recorded as a deemed contribution in capital reserve.

19. Interests in associates (Continued)

The lock-up undertaking is not considered in assessing the fair value of the equity interest as at the balance sheet date, as in the opinion of the directors, its cost has outweighted its benefit.

In addition, the Group has also acquired 30% equity interest in Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. from an individual third party with a cash consideration of RMB180 million.

20. Interests in jointly controlled entities

	2008 ***RMB'000***	2007 *RMB'000* (restated)
Cost of unlisted investments in jointly controlled entities	**739,889**	484,463
Share of post-acquisition profits, net of dividends received	**53,032**	93,705
	792,921	578,168

The summarized financial information in respect of the Group's interests in jointly controlled entities which are accounted for using the equity method is as follows:

	2008 ***RMB'000***	2007 *RMB'000* (restated)
Financial position		
Non-current assets	**2,025,523**	1,377,178
Current assets	**1,107,172**	639,038
Non-current liabilities	**(780,108)**	(668,149)
Current liabilities	**(1,559,666)**	(769,899)
Net assets	**792,921**	578,168

20. Interests in jointly controlled entities (Continued)

	2008 RMB'000	2007 RMB'000 (restated)
Results for the year		
Income	**2,085,039**	1,600,579
Expenses	**2,090,134**	1,538,622

Details of the principal jointly controlled entities are set out in note 42.

During the year, a discount on acquisition of approximately RMB25,717,000 has arisen on the acquisition of Tianji Sinochem Gaoping Chemical Engineering Co., Ltd. from its ultimate shareholding company.

21. Available-for-sale investments

	2008 RMB'000	2007 RMB'000 (restated)
Available-for-sale investments comprise:		
Listed equity securities	**492,554**	1,168,692
Unlisted equity securities	**10,446**	10,560
Less: impairment losses	**(1,290)**	(1,290)
	501,710	1,177,962

At the balance sheet date, all listed available-for-sale investments are stated at fair value determined by reference to the quoted market bid price from the relevant stock exchange and the discount rate of approximately 8.5% in connection with the lock-up period. The lock-up period expired during current year.

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.

22. Other long-term assets

	Activators RMB'000
COST	
At 1 January 2007 and 31 December 2007	–
Additions	24,747
Acquired on acquisition of subsidiaries	26,976
At 31 December 2008	**51,723**
Amortization	
At 1 January 2007 and 31 December 2007	–
Charge for the year	4,922
At 31 December 2008	**4,922**
CARRYING VALUES	
At 31 December 2008	**46,801**
At 31 December 2007	–

Based on the opinion of the directors of the Company, the activators have estimated useful lives of 10 years. Accordingly, they are amortized on a straight-line basis over 10 years.

23. Goodwill

	2008 *RMB'000*	2007 *RMB'000* (restated)
COST AND CARRYING AMOUNTS		
At 1 January	**333,829**	358,752
Arising on acquisition of subsidiaries *(note 44)*	**265,357**	–
Exchange adjustments	**(19,429)**	(24,923)
At 31 December	**579,757**	333,829

Details on impairment testing on goodwill are disclosed in note 24.

24. Impairment testing on goodwill

As explained in note 6, 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:

	2008 RMB'000	2007 RMB'000 (restated)
Sourcing and distribution	**282,367**	299,817
Production		
– Sinochem Pingyuan	**265,357**	–
– Others	**32,033**	34,012
	579,757	333,829

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to revenue and direct costs during the year. Directors of the Company estimates discount rates using pre-tax rates that reflect current market assessment 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. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market.

At the balance sheet date, the Group performed impairment review for goodwill based on cash flow forecasts of each CGU derived from financial budgets of the next year approved by directors and a discount rate of 9.12% (2007: 9.96%). Cash flows beyond the year 2009 are extrapolated using an average growth rate of 7.20% (2007: 10.50%) for the first eight years and a growth rate of 6.30% (2007: 6.30%) for the following five 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. Directors of the Company believe that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed the aggregate recoverable amount of the CGUs.

If the average growth rate applied in the impairment review for goodwill had been 2% lower, the value in use calculated by using the discount rate would still be higher than the carrying amounts of the CGUs, and there would be no impairments for any of the CGUs.

25. Inventories

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Fertilizer merchandise and finished goods	**10,863,788**	6,393,415
Raw materials	**661,357**	295,811
Work in progress	**36,510**	12,945
Consumables	**7,988**	3,199
	11,569,643	6,705,370

26. Trade and bills receivables

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Trade receivables	**528,001**	279,725
Less: allowance for doubtful debts	**(823)**	(694)
	527,178	279,031
Bills receivables	**1,701,489**	2,969,059
Total trade and bills receivables	**2,228,667**	3,248,090

The Group allows its trade customers with credit periods normally within 90 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Within 90 days	**517,669**	267,979
91 days to 180 days	**4,320**	9,209
181 days to 360 days	**1,494**	437
Over 360 days	**3,695**	1,406
	527,178	279,031

Before accepting any new customer, the Group uses past experience to assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly.

26. Trade and bills receivables (Continued)

Included in the Group's trade receivables balance are debtors with aggregate carrying amount of RMB9,509,000 (2007: RMB11,052,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 260 days (2007: 174 days).

Ageing of trade receivables which are past due but not impaired

	2008 RMB'000	2007 RMB'000 (restated)
91 days to 180 days	**4,320**	9,209
181 days to 360 days	**1,494**	437
Over 360 days	**3,695**	1,406
Total	**9,509**	11,052

Movement in the allowance for doubtful debts

	2008 RMB'000	2007 RMB'000 (restated)
Balance at beginning of the year	**694**	787
Allowances provided for bad and doubtful debts	**129**	293
Amounts recovered during the year	**–**	(386)
Balance at end of the year	**823**	694

The following is an aged analysis of bills receivables at the balance sheet date:

	2008 RMB'000	2007 RMB'000 (restated)
Within 90 days	**1,476,212**	2,352,574
91 days to 180 days	**225,277**	579,299
Over 180 days	**–**	37,186
	1,701,489	2,969,059

27. Amount due from/advance payment to ultimate holding company

	2008 RMB'000	2007 RMB'000 (restated)
CURRENT ASSET		
Receivables arising from trade (Note i)	–	7,589
NON-CURRENT ASSET		
Deposits for acquisition of equity investment (Note ii)	–	2,099,753

Notes:

(i) For the trade balance, the Group allows 120 days credit period to its ultimate holding company. At 31 December 2007, the balance is aged within 120 days.

(ii) The 2007 balance represented deposits paid to its ultimate holding company to acquire equity interest in Qinghai Salt Lake Potash Co., Ltd., Sinochem Shandong Fertilizer Co., Ltd. and Tianji Sinochem Gaoping Chemical Engineering Co., Ltd. The acquisitions have been completed in current year.

28. Pledged bank deposits/bank balances and cash

Pledged bank deposits

The pledged deposits have been placed in designated banks as collaterals for banking facilities granted to the Group. The carrying prevailing market interest rate is 0.72% (2007: 0.72%) per annum.

Bank balances and cash

Bank balances and cash comprise cash held by the Group and short-term bank deposits with original maturity of three months or less, and carry prevailing market interest rates ranging from 0.81% to 1.71% (2007: 0.72% to 4.35%) 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.

	2008 RMB'000	2007 RMB'000 (restated)
United States dollars ("US$")	**454**	4,837

29. Trade and bills payables

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

	2008 RMB'000	2007 RMB'000 (restated)
Within 90 days	**3,705,685**	2,031,196
91 days to 180 days	**323,218**	24,254
181 days to 360 days	**112,482**	10,958
Over 360 days	**22,016**	8,781
	4,163,401	2,075,189

The average credit period on purchases of goods is 90 days.

30. Convertible loan notes

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 have been called for redemption before 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. Pursuant to the applicable terms in the convertible loan notes agreement, the conversion price has been adjusted to HK$3.69 on 6 June 2008. Details are disclosed in the announcement dated 11 June 2008 published by the Company. According to the terms of the convertible loan notes, the Company has the option to pay the holder a cash amount in Hong Kong dollars equal to the arithmetic average of the volume weighted average price of the shares for each day during the three consecutive stock exchange business days immediately after the cash settlement notice date, the next stock exchange business day following the date of delivery of the conversion notice. 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.

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

30. Convertible loan notes (Continued)

The convertible loan notes contain liability component stated at amortized cost and conversion option, and 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 (equivalent to approximately RMB29,614,000) are apportioned between the liability component and derivative component based on their relative fair values at the date of issue. An issue cost of HK$27,513,000 (equivalent to approximately RMB27,687,000) relating to liability component is included in 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 component and derivative component of the convertible loan notes for the year is set out as below:

	Liability component *RMB'000*	**Derivative component** *RMB'000*
As at 1 January 2007 (restated and details set out in note (2b))	1,226,146	86,863
Convert to ordinary shares	(9,432)	(3,964)
Cash settled	(364,480)	(177,030)
Interest charge	73,483	–
Changes in fair value	–	713,668
Exchange adjustment	(72,114)	(3,988)
As at 31 December 2007	853,603	615,549
Convert to ordinary shares	(257,670)	(222,316)
Cash settled	(8,379)	(7,327)
Interest charge	40,164	–
Changes in fair value	–	(163,160)
Exchange adjustment	(40,552)	(23,542)
As at 31 December 2008	**587,166**	**199,204**

The fair value of the derivative component at 31 December 2008 is determined based on the valuation performed by Jones Lang LaSalle Sallmanns Limited, an independent professionally qualified valuer, using the applicable pricing model.

31. Borrowings

	2008 RMB'000	2007 RMB'000 (restated)
Bank loans, secured	**346,841**	228,001
Bank loans, unsecured	**8,173,078**	3,957,905
	8,519,919	4,185,906
Carrying amount repayable:		
Within one year	**7,536,557**	3,493,406
More than one year, but not exceeding two years	**281,365**	60,000
More than two years, but not exceeding five years	**571,997**	552,500
Exceeding five years	**130,000**	80,000
	8,519,919	4,185,906
Less: Amounts due within one year are shown under current liabilities	**(7,536,557)**	(3,493,406)
Amounts due after one year	**983,362**	692,500

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or repricing dates) are as follows:

	2008 RMB'000	2007 RMB'000 (restated)
Fixed-rate borrowings:		
Within one year	**4,991,843**	2,363,041
More than one year, but not exceeding two years	**82,965**	–
More than two years, but not exceeding five years	**4,997**	–
	5,079,805	2,363,041

31. Borrowings (Continued)

In addition, the Group has variable-rate borrowings. Interests are repriced in accordance with specific terms in the borrowing contracts.

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Variable-rate borrowings:		
Within one year	**2,544,714**	1,130,365
More than one year, but not exceeding two years	**198,400**	60,000
More than two years, but not exceeding five years	**567,000**	552,500
Exceeding five years	**130,000**	80,000
	3,440,114	1,822,865

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

	2008	2007
Effective interest rates:		
Fixed-rate borrowings	**4.374% to 8.964%**	5.508% to 8.964%
Variable-rate borrowings	**1.750% to 8.964%**	4.596% to 8.514%

During the year, the Group has obtained new loans in the amount of approximately RMB440,000,000 (2007: RMB1,171,000,000) to finance the acquisition of property, plant and equipment. The range of interest rates of these loans is 4.374% to 8.964% (2007: 5.508% to 8.964%) and these loans are repayable within twelve years.

31. Borrowings (Continued)

As at the balance sheet date, the Group has the following unutilized borrowing facilities:

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Floating rate		
– expiring within one year	**5,562,026**	2,837,081
– expiring beyond one year	**1,258,362**	4,230,642
	6,820,388	7,067,723

At 31 December 2008, certain property, plant and equipment and prepaid lease payments with carrying values of approximately RMB510,301,000 and RMB43,369,000 (2007: RMB163,970,000 and RMB3,673,000) respectively were pledged to secure banking facilities granted to the Group.

32. Deferred taxation

The following are deferred tax liabilities recognized and movements thereon during the current and prior years:

	Undistributed profits of a subsidiary and jointly controlled entities	**Revaluation of available-for-sale investments**	**Fair value adjustment on business combination**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007 (restated and details set out in note (2b))	13,930	13,297	–	27,227
Credit to profit for the year	(13,930)	–	–	(13,930)
Charge to equity for the year	–	169,465	–	169,465
Effects of change in tax rate	–	(4,255)	–	(4,255)
At 31 December 2007	–	178,507	–	178,507
Acquired on acquisition of subsidiaries	–	–	78,654	78,654
Credit to equity for the year	–	(149,972)	–	(149,972)
Credit to profit for the year	–	–	(1,846)	(1,846)
At 31 December 2008	**–**	**28,535**	**76,808**	**105,343**

32. Deferred taxation (Continued)

The following are deferred tax assets recognized and movements thereon during the current and prior years:

	Unrealized profits in inventories	Provisions	Tax loss	Accumulated depreciation difference	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007(restated and details set out in note (2b))	5,485	3,047	–	933	–	9,465
Credit (charges) to profit for the year	2,961	(1,945)	–	2,756	–	3,772
Effects of change in tax rate	(697)	(975)	–	156	–	(1,516)
At 31 December 2007	7,749	127	–	3,845	–	11,721
Acquired on acquisition of subsidiaries	–	–	–	–	2,325	2,325
Credit to profit for the year	19,326	113,782	39,850	2,261	–	175,219
At 31 December 2008	**27,075**	**113,909**	**39,850**	**6,106**	**2,325**	**189,265**

Deferred tax assets are recognized for tax losses carrying forward to the extent that the realization of the related tax benefit through the future taxable profits is probable. The Group has recognized deferred tax assets in respect of losses amounting to approximately RMB159,400,000 (2007: Nil) that can be carried forward against taxable income in the coming five years. Tax loss amounting to approximately RMB1,864,000 has expired in current year. No deferred tax assets were recognized on the losses of approximately RMB615,763,000 (2007: RMB495,163,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable.

Under the New Law of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards.

As the Company controls the dividend policy of its PRC subsidiaries, it is able to control the timing of the reversal of temporary differences associated with the investment in subsidiaries. Furthermore, the Company has determined that those profits earned by PRC subsidiaries will not be distributed oversea in the foreseeable future. Therefore the Company did not recognize a withholding tax liability and the related deferred tax liability of RMB86,620,000 at 31 December 2008.

33. Issued equity

(a) The movements in issued equity of the Group:

	2008 *RMB'000*	2007 *RMB'000* (restated)
At the beginning of the year	**3,078,496**	816,982
Issue of new shares of par value of HK$0.10 each:		
Conversion of convertible loan notes (Note i)	**479,986**	13,396
Issue of new shares (Note ii)	**4,660,200**	2,248,118
Exercise of options	**14,563**	–
At the end of the year	**8,233,245**	3,078,496

Due to the application of reverse acquisition basis of accounting during the year ended 31 December 2005, the amount of issued equity of the Group as at 31 December 2008, which included share capital and share premium in the consolidated balance sheet, represented the amount of issued equity of the legal subsidiary, China Fertilizer (Holdings) Company Limited, immediately before the acquisitions of HK$78,000, the deemed cost of acquisition of the property group of HK$285,363,000, and the issue of new shares and additional shares from conversion of the convertible loan notes, after deducting the costs of issuing the new shares.

33. Issued equity (Continued)

(b) The movements in the share capital of the Company are as follows:

	Number of shares *(in thousand)*	Nominal value *HK$'000*	Equivalent to *RMB'000*
Ordinary shares			
Authorized:			
Ordinary shares of HK$0.10 each at 1 January 2007 and 31 December 2007 and 2008	80,000,000	8,000,000	
Issued and fully paid:			
Ordinary shares of HK$0.10 each at 1 January 2007	5,807,950	580,795	577,154
Issue of shares upon conversion of convertible loan notes	2,674	267	260
Issue of new shares	400,000	40,000	38,727
Ordinary shares of HK$0.10 each at 31 December 2007	6,210,624	621,062	616,141
Issue of shares upon conversion of convertible loan notes *(Note i)*	74,372	7,437	6,836
Issue of new shares *(Note ii)*	714,286	71,429	66,574
Exercise of options	7,700	770	685
Ordinary shares of HK$0.10 each at 31 December 2008	7,006,982	700,698	690,236
Preference shares			
Authorized:			
Preference shares of HK$1,000,000 each	316	316,000	295,902

No preference shares are issued at 31 December 2007 and 31 December 2008.

Notes:

(i) During the year, the convertible loan notes holders converted notes with face value of approximately HK$288 million (equivalent to approximately RMB256 million) (2007: HK$10 million (equivalent to approximately RMB9 million) into ordinary shares.

(ii) On 7 January 2008, the Company issued and allotted approximately 714,285,000 shares at a price of HK$7 per share to Sinochem Hong Kong (Group) Co., Ltd., the immediate holding company of the Company, and PCS (Barbados) Investments Co., Ltd. These shares rank pari passu in all respects with other shares in issue.

34. Share-based payment transactions

Equity-settled share option scheme

The share option scheme adopted by the Company on 26 August 2002 ("Old Share Option Scheme") was terminated on 28 June 2007 and a new share option scheme ("New Share Option Scheme") was adopted pursuant to a resolution passed on 28 June 2007.

Old Scheme Option Scheme

The Old Share Option Scheme was adopted by the Company pursuant to a resolution passed on 26 August 2002 for the primary purpose of providing incentives to directors and eligible persons. Under Old Share Option Scheme, the Board may grant options to eligible persons, including directors (including independent non-executive directors) of the Company and its subsidiaries, suppliers, customers, consultants, advisers and shareholders of the Group and the invested entities, to subscribe for shares in the Company.

For the share options granted by the Company on 23 January 2006, the exercise price of HK$1.672 per share 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 ordinary shares as quoted on the Stock Exchange as at the date of grant; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of grant; and (iii) the nominal value of the ordinary share of the Company. No more than two-thirds of the share options are exercisable from 23 January 2008 to 22 January 2009, and the remaining share options are exercisable at any time from 23 January 2009 to 22 January 2012.

New Share Option Scheme

The New Share Option Scheme was adopted by the Company pursuant to a resolution passed on 28 June 2007. The scope of participants under the New Share Option Scheme is narrower than that under the Old Share Option Scheme so that it only encompasses employees, proposed employees, directors (but excluding independent non-executive directors) of the Group and the invested entities. The New Share Option Scheme also expressly provides that, the Board may, with respect to each grant of share options, determine the subscription price (being not less than the minimum price specified in the Listing Rules), the vesting schedule (including any minimum holding period) and any performance targets that apply to the share options.

34. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

New Share Option Scheme (Continued)

For the share options granted by the Company on 28 August 2007, the exercise price of HK$4.99 per share 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 ordinary shares as quoted on the Stock Exchange as at the date of grant; (ii) the average closing price of the Company's shares as quoted on the Stock Exchange for the five consecutive trading days immediately preceding the date of grant; and (iii) the nominal value of the ordinary share of the Company. The exercisable period of the share options granted can be analysed as: (i) 33.3% of the share options granted are exercisable on or after 28 August 2009 and (ii) 16.7% of the share options granted are exercisable on or after 28 August 2010; (iii) if the total accumulated basic earnings per share of the Company for the financial years ending 31 December 2007, 31 December 2008 and 31 December 2009 is more than HK$0.674, (being more than 20% growth on average in the basic earnings per share for the three years ending 31 December 2009), a further of 25% of the total number of share options granted are exercisable on or after 28 August 2010 and the remaining of 25% of the share options granted are exercisable on or after 28 August 2011. In the event that the total accumulated basic earnings per share for the financial years ending 31 December 2007, 31 December 2008 and 31 December 2009 is HK$0.674 or less, 50% of the share options granted will be forfeited on 28 August 2010. All remaining unexercised share options will be forfeited on 28 August 2013.

HK$1 is payable on acceptance of an option under both the Old Share Option Scheme and the New Share Option Scheme. At 31 December 2008, the number of shares in respect of which options had been granted and remained outstanding was 29,134,400 (2007: 37,145,000), representing 0.40% (2007: 0.60%) 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 572,228,672.

Pursuant to the Listing Rules, the total number of shares in respect of which options may be granted under all share option schemes of the Company 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 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 or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's independent shareholders.

34. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

As at the balance sheet date, the details of the outstanding share options granted under the share option schemes are as follows:

Grantees	Date of grant	Exercisable period	Exercise price HK$	Number of options
Mr. LIU De Shu *(Note 1)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,219,800
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. SONG Yu Qing *(Note 1)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	949,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. DU Ke Ping *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	4,399,800
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Dr. CHEN Guo Gang *(Note 1)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	949,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Mr. Harry YANG *(Note 2)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	949,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	420,000
Mr. Wade FETZER III *(Note 1)*	28 August 2007	28 August 2009 to 27 August 2013	4.990	256,000
Employees	23 January 2006	23 January 2008 to 22 January 2012	1.672	12,139,200
	28 August 2007	28 August 2009 to 27 August 2013	4.990	6,500,000
				29,134,400

Notes:

(1) Non-Executive Director of the Company

(2) Executive Director of the Company

34. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price
2006	23 January 2006	23 January 2008 to 22 January 2012	HK$1.672
2007	28 August 2007	28 August 2009 to 27 August 2013	HK$4.990

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

	Outstanding at 1 January 2008	Granted during the year	Forfeited during the year	Exercised during the year	Outstanding at 31 December 2008
2008	**37,145,000**	**–**	**(310,000)**	**(7,700,600)**	**29,134,400**
Exercisable at the end of the year	**–**	**–**	**–**	**–**	**20,606,400**
Weighted average exercise price	**HK$2.449**	**–**	**HK$3.513**	**HK$1.672**	**HK$2.643**
2007	28,445,000	8,700,000	–	–	37,145,000
Exercisable at the end of the year	–	–	–	–	–
Weighted average exercise price	HK$1.672	HK$4.990	–	–	HK$2.449

During the year ended 31 December 2007, options were granted on 28 August 2007. The estimated fair value of the options granted is approximately HK$16,269,000, equivalent to approximately RMB15,826,000.

34. Share-based payment transactions (Continued)

Equity-settled share option scheme (Continued)

This fair value was calculated using the Black-Scholes stock option model. The inputs into the model were as follows:

	2007
Weighted average share price	HK$4.990
Exercise price	HK$4.990
Expected volatility	40.26%
Expected life	4 to 5 years
Risk-free rate *(Note)*	4.128% to 4.199%
Expected dividend yield	0.53%

Note: Risk free rate of 4.161% was used in the computation of fair value of options exercisable in two years to four years, respectively.

Expected volatility was determined by using the historical volatility of the Company's share prices over the previous two years before the granting of these options. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognized the total expense of approximately RMB3,876,000 for the year ended 31 December 2008 (2007: RMB6,519,000) in relation to share options granted by the Company.

35. Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, comprising of convertible loan notes and borrowings as disclosed in notes 30 and 31, cash and cash equivalents and equity attributable to equity holders of the Company, of issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

36. Financial instruments

(a) Categories of financial instruments

	2008 *RMB'000*	2007 *RMB'000* (restated)
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,696,580**	3,535,581
Available-for-sale financial assets	**501,710**	1,177,962
Financial liabilities		
Derivative financial liabilities	**199,204**	615,549
Amortized cost	**14,145,772**	8,033,909

(b) Financial risk management objectives and policies

The Group's major financial instruments include equity investments, trade and bills receivables, other receivables, amount due from ultimate holding company, trade and bills payables, other payables, convertible loan notes and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no change to the Group's exposure to these risks or the manner in which it manages and measures these risks. The management manages and monitors the Group's exposures to these risks to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Group have foreign currency purchases. As at the balance sheet date, there were trade payables denominated in US$ amounting to approximately RMB52,191,000 and pledged bank deposits in foreign currency as disclosed in note 27, which expose the Group to currency risk. The Group considers the currency risk insignificant and does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

36. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(i) Currency risk (Continued)

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities that are subject to currency risk at the reporting date are as follows:

	Liabilities		Assets	
	2008 **RMB'000**	2007 RMB'000	**2008** **RMB'000**	2007 RMB'000
United States dollars ("US$")	**52,191**	176,160	**454**	4,837

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the United States dollars.

The following table details the Group's sensitivity to a 2% (2007: 2%) increase and decrease in RMB against the US$. 2% (2007: 2%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation to RMB at year end for a 2% (2007: 2%) change in foreign currency rates. The sensitivity analysis includes external loans. A positive number below indicates an increase in post-tax profit where RMB strengthens 2% (2007: 2%) against the relevant currency. For a 2% (2007: 2%) weakening of RMB against the relevant currency, there would be an equal and opposite impact on the profit and other equity, and the balances below would be negative.

	United States dollars impact	
	2008 **RMB'000**	2007 RMB'000
Profit or loss	**1,035**	3,426

This is mainly attributable to the exposure to outstanding payables denominated in foreign currency not subject to cash flow hedges at year end.

36. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see notes 30 and 31 for details of these convertible loan notes and borrowings). The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 31 for details of these borrowings). Cash flow interest rate risk in relation to bank balances and deposits is considered insignificant. Interest rate risk is managed by the directors of the Company on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of prevailing interest rate announced by the People's Bank of China, and fluctuation of LIBOR.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the balance sheet date. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 100 basis points (2007: 50 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2007: 50 basis points) higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2008 would decrease/increase by approximately RMB34,401,000 (2007: decrease/increase by approximately RMB7,988,800). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate debt instruments.

36. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Market risk (Continued)

(iii) Other price risk

The Group is exposed to equity price risk through its investments in equity securities and its derivative financial liabilities. The Group's equity price risk in available-for-sale investments is mainly concentrated on equity instruments issued by companies operating in fertilizer industry sector listed on the Stock Exchange of Shenzhen, the Stock Exchange of Shanghai, and the Stock Exchange of Singapore and the Company's shares listed on The Stock Exchange of Hong Kong Limited. The directors of the Company closely monitor the share price movements of those securities in order to minimize the Group's exposure to the price risk.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

Available-for-sale investments

If the prices of the respective listed equity instruments had been 10% (2007: 5%) higher/lower:

- investment valuation reserve would increase/decrease by approximately RMB39,192,000 (2007: increase/decrease by approximately RMB48,223,000) for the Group as a result of the changes in fair value of available-for-sale investments.

Derivative financial liabilities

If the price of the Company's shares had been 5% higher/lower while all other input variables of the valuation models were held constant:

- profit for the year ended 31 December 2008 would decrease/increase by approximately RMB21,495,000 (2007: decrease/increase by approximately RMB122,568,000) for the Group as a result of the changes in fair value of derivative financial liabilities.

In the opinion of the directors of the Company, the sensitivity analysis above is unpresentative of price risk in derivative financial liabilities as the year end exposure does not reflect the exposure during the year.

36. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

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 2008 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The directors of the Company consider that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are 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 against the irrecoverable amounts. In this regard, the directors of the Company believe that the Group's credit risk is significantly reduced.

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

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilization of bank borrowings.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilized bank loan facilities of approximately RMB6,820,388,000 (2007: RMB7,067,723,000). Details of which are set out in note 31.

The following table details the Group's remaining contractual maturity for its financial liabilities. For financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

36. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables

2008

	Weighted average interest rate %	Less than 1 month *RMB'000*	1-3 months *RMB'000*	3 months to 1 year *RMB'000*	1-5 years *RMB'000*	5+ years *RMB'000*	Total undiscounted cash flows *RMB'000*	Carrying amount at 31 December 2008 *RMB'000*
Financial assets								
Bank balances and deposits	0.71	168,339	-	-	-	-	168,339	168,238
Others	-	534,461	1,993,881	-	-	-	2,528,342	2,528,342
		702,800	1,993,881	-	-	-	2,696,681	2,696,580
Financial liabilities								
Trade and bills payables	-	(457,716)	(3,705,685)	-	-	-	(4,163,401)	(4,163,401)
Bank loans								
– fixed rate	5.03	(310,790)	(1,157,279)	(3,651,728)	(88,870)	-	(5,208,667)	(5,079,805)
– variable rate	4.40	(14,105)	(1,801,854)	(832,339)	(940,074)	(154,029)	(3,742,401)	(3,440,114)
Other payables	-	(676,082)	-	-	-	-	(676,082)	(676,082)
Convertible loan notes (Note)	4.94	-	-	(633,331)	-	-	(633,331)	(786,370)
		(1,458,693)	(6,664,818)	(5,117,398)	(1,028,944)	(154,029)	(14,423,882)	(14,145,772)
		(755,893)	(4,670,937)	(5,117,398)	(1,028,944)	(154,029)	(11,727,201)	(11,449,192)

36. Financial instruments (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk (Continued)

Liquidity and interest risk tables (Continued)

2007 (restated)

	Weighted average interest rate	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	5+ years	Total undiscounted cash flows	Carrying amount at 31 December 2007
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial assets								
Bank balances and deposits	0.72	122,872	–	–	–	–	122,872	122,798
Others	–	1,176,800	1,756,083	479,900	–	–	3,412,783	3,412,783
		1,299,672	1,756,083	479,900	–	–	3,535,655	3,535,581
Financial liabilities								
Trade and bills payables	–	(32,987)	(2,042,202)	–	–	–	(2,075,189)	(2,075,189)
Bank loans								
– fixed rate	6.543	(475,260)	(1,367,300)	(522,884)	–	–	(2,365,444)	(2,363,041)
– variable rate	7.094	(8,260)	(1,406,905)	(622,294)	(598,613)	(86,003)	(2,722,075)	(1,822,865)
Other payables	–	(303,662)	–	–	–	–	(303,662)	(303,662)
Convertible loan notes (Note)	4.94	–	–	–	(1,082,966)	–	(1,082,966)	(1,469,152)
		(820,169)	(4,816,407)	(1,145,178)	(1,681,579)	(86,003)	(8,549,336)	(8,033,909)
		479,503	(3,060,324)	(665,278)	(1,681,579)	(86,003)	(5,013,681)	(4,498,328)

Note: The undiscounted cash flows of convertible loan notes represent the entire redemption amount upon the exercise of redemption right by the bondholders. The carrying amount of convertible loan notes represents the total carrying amounts of the liability and derivative components as at 31 December 2008 and 2007.

36. Financial instruments (Continued)

(c) Fair value

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

- the fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively; and

- the fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input. For an option-based derivative, the fair value is estimated using option pricing model (for example, the Black-Scholes-Merton model).

Except as detailed in the following table, the directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements approximate their fair values:

	2008		2007	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial liabilities				
Convertible loan notes				
(Liability component)	**587,166**	**607,550**	853,603	889,794

37. Contingent liabilities

At 31 December 2008, the Group had no material contingent liabilities (2007: Nil).

38. Commitments

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Assets under construction		
Contracted but not provided for	**602,041**	473,000
Authorized but not contracted for	**110,973**	428,786
	713,014	901,786

39. 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:

	2008	2007
	RMB'000	*RMB'000*
		(restated)
Within one year	**616**	604
One to five years	**231**	392
	847	996

39. Operating lease commitments (Continued)

The Group as lessee

The Group leases various retail outlets, offices and warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights which give the Group a priority in renewing these operating lease agreements.

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

	2008 ***RMB'000***	2007 *RMB'000* (restated)
Within one year	**57,914**	31,501
More than one year, but not exceeding five years	**25,358**	28,298
Exceeding five years	**5,641**	6,240
	88,913	66,039

40. Related party transactions

The related parties that had transactions with the Group during the year ended 31 December 2008 and 2007 were as follows:

Fellow subsidiaries

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

Beijing Chemsunny Property Company Limited ("Chemsunny Ltd.")
（北京凱晨置業有限公司）

40. Related party transactions (Continued)

Jointly controlled entities

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

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

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

Beijing Sinochem Tianji Trading Company Limited
（北京中化天脊貿易有限公司）(disposed in 2008)

Tianji Sinochem Gaoping Chemical Engineering Company Limited ("Tianji Sinochem Gaoping")
（天脊中化高平化工有限公司）(acquired in 2008)

Gansu Wengfu Chemical Company Limited ("Gansu Wengfu")
（甘肅瓮福化工有限責任公司）

Associates

Qinghai Salt Lake Potash Company Limited ("Qinghai Salt Lake")
（青海鹽湖鉀肥股份有限公司）(acquired in 2008)

Guizhou Xinxin Industrial and Agricultural Trading Company Limited ("Guizhou Xinxin")
（貴州鑫新工農貿易有限公司）(acquired in 2008)

An associate of a substantial shareholder of the Company

Canpotex International Pte. Limited ("Canpotex Ltd.")

40. Related party transactions (Continued)

(a) During the year, as disclosed in notes 19 and 20, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Corporation, and other related parties:

	2008 *RMB'000*	2007 *RMB'000* (restated)
Sales of fertilizers to		
Sinochem Corporation	**761,968**	1,156,572
Three-Circles Sinochem	**235,721**	–
Purchases of fertilizers from		
Sinochem Corporation	**808,746**	258,589
Sinochem Kailin	**236,321**	239,423
Sinochem Cargill	**287,150**	298,040
Qinghai Salt Lake	**1,486,614**	1,098,381
Beijing Sinochem Tianji Trading Company Limited	**556,525**	570,332
Three-Circles Sinochem	**388,356**	–
Tianji Sinochem Gaoping	**366,840**	–
Guizhou Xinxin	**39,995**	–
Gansu Wengfu	**291,599**	–
Canpotex Ltd.	**3,706,621**	3,113,890
Import service fee		
Sinochem Corporation	**256**	463
Sinochem (United Kingdom) Limited	**12,117**	10,329
Office rental fee		
Chemsunny Ltd.	**17,817**	6,285

40. Related party transactions (Continued)

(b) At the balance sheet date, the Group has the following balances with its related parties relating to trade and bills receivables, advance payments and other receivables, trade and bills payables and receipts in advance and other payables:

	2008 *RMB'000*	2007 *RMB'000* (restated)
Trade receivables		
Sinochem Corporation	**265,260**	–
Advance payments to suppliers		
Sinochem Cargill	**–**	34,470
Sinochem Kailin	**–**	23,305
Qinghai Salt Lake	**477,860**	10,464
Beijing Sinochem Tianji Trading Company Limited	**–**	30,145
Three-Circles Sinochem	**–**	41,578
Tianji Sinochem Gaoping	**86,449**	–
Trade payables		
Sinochem Kailin	**19,535**	–
Three-Circles Sinochem	**19,342**	–
Gansu Wengfu	**20,784**	–
Canpotex Ltd.	**1,098,800**	804,511
Other receivables		
Canpotex Ltd.	**12,022**	38,315
Chemsunny Ltd.	**6,822**	6,821
Receipts in advance		
Sinochem Kailin	**–**	18,406
Other payables		
Sinochem (United Kingdom) Limited	**–**	1,848

Key management personnel include solely the directors of the Company and compensation paid to them is disclosed in note 11 and 12. The remuneration is determined by the remuneration committee of the Company having regard to the performance of each individual and market trends.

40. Related party transactions (Continued)

(c) Transactions/balances with other state-controlled entities in the PRC

The Group operates in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). 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 as disclosed above, the Group also conducts business with other state-controlled entities. The directors of the Company consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

At the balance sheet date, the Group had the following significant balances with other state-controlled entities in the PRC:

	2008 ***RMB'000***	2007 *RMB'000* (restated)
Trade and bills receivables	**269,322**	1,263,155
Advance payments and other receivables	**30,024**	74,150
Trade and bills payables	**866,271**	71,044
Receipts in advance and other payables	**1,079,149**	112,385

During the year, the Group had the following significant transactions with other state-controlled entities as follows:

	2008 ***RMB'000***	2007 *RMB'000* (restated)
Sales of fertilizers	**3,954,141**	3,852,863
Purchase of fertilizers	**4,061,234**	3,556,088

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks that are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Company are of the opinion that separate disclosure would not be meaningful.

Except for amounts and transactions disclosed above and in note 44(b), the directors of the Company are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

41. Principal subsidiaries

Particulars of the principal subsidiaries of the Group as at 31 December 2008 and 2007:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital	Proportion ownership interest held by the Company		Principal activities
			2008	2007	
Directly held:					
China Fertilizer (Holdings) Company Limited	BVI	US$10,002	**100%**	100%	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US$1,000,000	**100%**	100%	Investment holding
Indirectly held:					
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US$10,002	**100%**	100%	Investment holding
Sinochem Fertilizer Company Limited (Note 1) （中化化肥有限公司）	PRC	RMB7,600,000,000	**100%**	100%	Fertilizer trading
Dohigh Trading Limited （敦尚貿易有限公司）	Hong Kong	HK$15,000,000	**100%**	100%	Fertilizer 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%**	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Company Limited (Note 3) （綏芬河新凱源貿易有限公司）	PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited (Note 3) （福建中化智勝化肥有限公司）	PRC	RMB47,000,000	**53.19%**	53.19%	Sales and manufacturing of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Company Limited (Note 3) （中化重慶涪陵化工有限公司）	PRC	RMB80,000,000	**60%**	60%	Sales and manufacturing of fertilizers

41. Principal subsidiaries (Continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital	Proportion ownership interest held by the Company 2008	2007	Principal activities
Sinochem Yantai Crop Nutrition Company Limited (Note 2) (煙台中化作物營養有限公司)	PRC	US$241,000	**51%**	51%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Company Limited (Note 3) (滿洲里凱明化肥有限公司)	PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan") (Note 3) (中化平原化工有限公司) (Formerly known as Shandong Deqilong Chemical Company Limited 山東德齊龍化工集團有限公司)	PRC	RMB300,000,000	**75%**	–	Sales and manufacturing of fertilizers
Sinochem Jilin Changshan Chemical Company Limited ("Sinochem Changshan") (Note 3) (中化吉林長山化工有限公司) (Formerly known as "Jilin Fertilizer and Pesticide Group Company Limited 吉林化肥農藥集團有限公司")	PRC	RMB589,590,000	**90.81%**	–	Sales and manufacturing of fertilizers
Hubei Sinochem Orient Fertilizer Company Limited ("Sinochem Orient") (Note 4) 湖北中化東方肥料有限公司	PRC	RMB30,000,000	**80%**	55%	Sales and manufacturing of fertilizers
Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong") (Note 3) 中化山東肥業有限公司	PRC	RMB100,000,000	**51%**	51%	Sales and manufacturing of fertilizers

The above table lists the subsidiaries of the Group which, in the opinion of the directors of the Company, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

41. Principal subsidiaries (Continued)

Note 1: Company with foreign investment

Note 2: Sino-foreign enterprise

Note 3: Domestic company

Note 4: As at 31 December 2007, the Group has an equity interest of 55% in Sinochem Orient and accounted for the investment as a jointly controlled entity because the Group has joint control over the economic activities of the entity with other joint venture parties. The Group has acquired an additional 25% equity interest in Sinochem Orient in current year.

42. Principal jointly controlled entities

Particulars of the principal jointly controlled entities of the Group during 31 December 2008 and 2007:

Name of jointly controlled entities	Place of incorporation/ registration	Nominal value of issued capital	Proportion ownership interest held by the Company	Principal activities
			(Note)	
Indirectly held:				
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%	Fertilizer 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 fertilizers
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 fertilizers
Yunnan Three-Circles Sinochem Fertilizer Company Limited (雲南三環中化化肥有限公司)	PRC	RMB600,000,000	40%	Sales and manufacturing of fertilizers
Beijing Sinochem Tianji Trading Company Limited (Note) (北京中化天脊貿易有限公司)	PRC	RMB5,000,000	60%	Fertilizer trading
Gansu Wengfu Chemical Company Limited (甘肅瓮福化工有限責任公司)	PRC	RMB181,100,000	30%	Sales and manufacturing of fertilizers
Tianji Sinochem Gaoping Chemical Engineering Company Limited (天脊中化高平化工有限公司)	PRC	RMB500,000,000	40%	Sales and manufacturing of fertilizers

Note: Beijing Sinochem Tianji Trading Company Limited had completed its resolution on 20 October 2008.

42. Principal jointly controlled entities (Continued)

The above table lists the jointly controlled entities of the Group which, in the opinion of the directors of the Company, principally affected the results of the year or form a substantial portion of the net assets of the Group. To give details of other jointly controlled entities would, in the opinion of the directors of the Company, result in particulars of excessive length.

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

43. Retirement benefits scheme contribution

According to the relevant laws and regulations in the PRC, the Company's certain subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The Company's certain subsidiaries' contribution to fund the retirement benefits of the employees are calculated based on certain percentage of the average employee salary as agreed by local municipal government to the scheme. The only obligation of the Group with respect to the retirement benefits scheme is to make the required contribution under the scheme.

44. Acquisition of subsidiaries

(a) Sinochem Pingyuan Chemical Company Limited

In June 2008, the Company completed an acquisition of 75% issued equity of Sinochem Pingyuan Chemical Company Limited 中化平原化工有限公司 ("Sinochem Pingyuan", formerly known as Shandong Deqilong Chemical Company Limited 山東德齊龍化工集團有限公司) with consideration of RMB695,000,000. This transaction has been accounted for using the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination	**Fair value adjustments**	**Fair value**
	RMB'000	*RMB'000*	*RMB'000*
Net assets acquired:			
Property, plant and equipment	2,184,813	41,956	2,226,769
Prepaid lease payments	59,874	–	59,874
Other long-term assets	24,067	–	24,067
Deferred tax assets	2,325	–	2,325
Inventories	94,680	–	94,680
Trade and bills receivables	75,767	–	75,767
Advance payments and other receivables	41,767	–	41,767
Bank balances and cash	82,808	–	82,808
Trade and bills payables	(455,759)	–	(455,759)
Receipts in advance and other payables	(746,978)	–	(746,978)
Borrowings	(518,667)	–	(518,667)
Taxation payables	(313,796)	–	(313,796)
Net assets	530,901	41,956	572,857
Minority interest			(143,214)
Goodwill			265,357
			695,000
Total consideration			
Satisfied by:			
Cash			695,000
Net cash outflow arising on acquisition:			
Cash consideration			(695,000)
Bank balances and cash acquired			82,808
			(612,192)

44. Acquisition of subsidiaries (Continued)

(a) Sinochem Pingyuan Chemical Company Limited (Continued)

Subsequent to the acquisition of Sinochem Pingyuan, the management has revised its assessment on the fair value of certain assets and liabilities of Sinochem Pingyuan as at the date of acquisition based on information obtained subsequently. Based on the revised assessment, the fair values of assets and liabilities of Sinochem Pingyuan have been revised from RMB964 million to RMB573 million. Consequently, the discount on acquisition of Sinochem Pingyuan with an amount of RMB28 million as previously disclosed in the interim report of 2008 is revised to a goodwill of RMB265 million recognized arising from this acquisition.

(b) Sinochem Jilin Changshan Chemical Company Limited

In April 2008, the Company entered into an agreement with 吉林省國有資產監督管理委員會 ("Jilin SASAC") to acquire the entire equity interest in Jilin Fertilizer and Pesticide Group Co., Ltd 吉林化肥農藥集團有限公司 (renamed as Sinochem Jilin Changshan Chemical Company Limited 中化吉林長山化工有限公司 "Sinochem Changshan" at the completion of the acquisition) at nil consideration. The acquisition is subject to the completion of a debt restructuring arrangement among Jilin SASAC, Sinochem Changshan and Oriental Asset Management Company Limited, an independent lender. Based on the agreement entered with Jilin SASAC, the Company will continuously support the operation of Sinochem Changshan, and thus, has contributed an additional funding of approximately RMB149 million in Sinochem Changshan subsequent to the acquisition.

44. Acquisition of subsidiaries (Continued)

(b) Sinochem Jilin Changshan Chemical Company Limited (Continued)

This acquisition has been accounted for using the purchase method of accounting. The effect of the debt restructuring arrangement and the acquisition are set out below.

	Acquiree's carrying amount before debt restructuring arrangement *RMB'000*	Effect of debt restructuring arrangement *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
Net assets acquired:				
Property, plant and equipment	637,908	–	52,580	690,488
Prepaid lease payments	86,204	–	267,172	353,376
Other long-term assets	2,909	–	–	2,909
Inventories	36,965	–	–	36,965
Trade and bills receivables	11,784	–	–	11,784
Advance payments and other receivables	188,152	–	–	188,152
Bank balances and cash	29,970	–	–	29,970
Trade and bills payables	(65,693)	–	–	(65,693)
Receipts in advance and other payables	(667,478)	–	–	(667,478)
Borrowings	(562,208)	300,496	–	(261,712)
Taxation payables	(16,584)	–	–	(16,584)
Deferred tax liabilities	–	–	(78,654)	(78,654)
Net assets	(318,071)	300,496	241,098	223,523
Minority interests				(9,371)
Discount on acquisition of a subsidiary				(214,152)
Total consideration				0
Net cash inflow arising on acquisition:				
Bank balances and cash acquired				29,970
				29,970

44. Acquisition of subsidiaries (Continued)

(b) Sinochem Jilin Changshan Chemical Company Limited (Continued)

The debt restructuring arrangement included (i) a novation of debt of approximately RMB426,876,000 from Oriental Asset Management Company Ltd. to Jilin SASAC, (ii) a waiver of debt of approximately RMB300,496,000 and (iii) a capitalization of approximately RMB54,160,000 upon full settlement of the balance of approximately RMB72,220,000. The capitalization is completed in December 2008, resulting in a dilution of the Group's equity interest of Sinochem Changshan from 100% to 90.81% and a gain on dilution of RMB17,438,000.

The discount on acquisition is calculated as the shortfall of the cost of investments over the fair value of net assets acquired.

As noted above, the Group is committed to continuously supporting the operations of Sinochem Changshan. Sinochem Changshan contributed a loss of approximately RMB18 million for the period between the date of acquisition and the balance sheet date.

(c) Hubei Sinochem Orient Fertilizer Company Limited

In December 2008, the Company and another shareholder of Hubei Sinochem Orient Fertilizer Company Limited 湖北中化東方肥料有限公司 ("Sinochem Orient") have injected additional capital in Sinochem Orient with approximate amounts of RMB18 million and RMB1 million, respectively. Prior to this capital injection, Sinochem Orient was jointly controlled entity of the Group. Subsequent to the additional capital injection, the Company's equity interest in Sinochem Orient has increased from 55% to 80%. This transaction has been accounted for using the purchase method of accounting. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination *RMB'000*	**Fair value** *RMB'000*
Net assets acquired:		
Property, plant and equipment	7,647	7,647
Inventories	23,868	23,868
Trade and bills receivables	2,798	2,798
Advance payments and other receivables	12,024	12,024
Bank balances and cash	7,482	7,482
Trade and bills payables	(1,462)	(1,462)
Receipts in advance and other payables	(5,709)	(5,709)
Borrowings	(15,000)	(15,000)
Net assets	31,648	31,648
Minority interests		(6,742)

44. Acquisition of subsidiaries (Continued)

(c) Hubei Sinochem Orient Fertilizer Company Limited (Continued)

	Acquiree's carrying amount before combination *RMB'000*	**Fair value** *RMB'000*
Total consideration		
Cash		18,076
Carrying amount of the Company's interest in Sinochem Orient		6,830
		24,906
Net cash outflow arising on acquisition:		
Cash consideration		(18,076)
Bank balances and cash acquired		7,482
		(10,594)

Sinochem Pingyuan and Sinochem Orient contributed a loss of RMB136 million for the period between the date of acquisition and the balance sheet date.

If the acquisitions had been completed on 1 January 2008, total group revenue for the year would have been RMB46,334 million, and profit for the year would have been RMB1,985million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2008, nor it is intended to be a projection of future results.

45. Disposal of a subsidiary

In August 2008, the Group has disposed its 60% equity interest in Guizhou Kaiyang Qinglongjiang Company Limited 貴州開陽青龍江有限公司("Qinglongjiang") at a cash consideration of approximately RMB14 million. The net assets of Qinglongjiang, at the date of disposal, are as follows:

	Carrying amount as at disposal date *RMB'000*
Net assets disposed:	
Property, plant and equipment	369
Mining right	23,759
Minority interests	(9,465)
Bank balances and cash	583
Others	(1,182)
Net assets	14,064
Gain on disposal	419
Total consideration	14,483
Bank balances and cash disposed of	(583)
Cash consideration	14,483
Net cash inflow arising on disposal	13,900

46. Major non-cash transactions

As disclosed in note 44(b), due to the debt restructuring arrangement among Jilin SASAC, Sinochem Changshan and Oriental Asset Management Company Ltd., an independent lender, a debt amounting to approximately RMB54,160,000 has been capitalized during the year.

Five Year Financial Summary

Consolidated Results

	For the year ended 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)			
Turnover	**45,392,885**	28,381,689	21,126,571	19,248,665	11,857,185
Profit before tax	**2,084,237**	978,294	1,003,973	929,957	668,065
Income tax expense	**(176,430)**	(316,400)	(99,191)	(137,533)	(141,254)
Profit for the year	**1,907,807**	661,894	904,782	792,424	526,811
Attributable to					
Equity shareholders of the Company	**1,912,555**	641,142	896,246	779,421	510,824
Minority interests	**(4,748)**	20,752	8,536	13,003	15,987
	1,907,807	661,894	904,782	792,424	526,811

Note: The historical figures represent financial information of Fertilizer Group for the year 2004 and the Group for 2005 to 2008.

Consolidated Balance Sheet

	At 31 December				
	2008	2007	2006	2005	2004
	RMB'000	*RMB'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(restated)			
Total assets	**30,125,080**	17,617,314	10,509,075	9,275,335	6,826,564
Total liabilities	**(15,754,715)**	(9,854,532)	(5,965,104)	(5,614,622)	(4,770,262)
	14,370,365	7,762,782	4,543,971	3,660,713	2,056,302

Note: The historical figures represent financial information of Fertilizer Group for the year 2004 and the Group for 2005 to 2008.

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