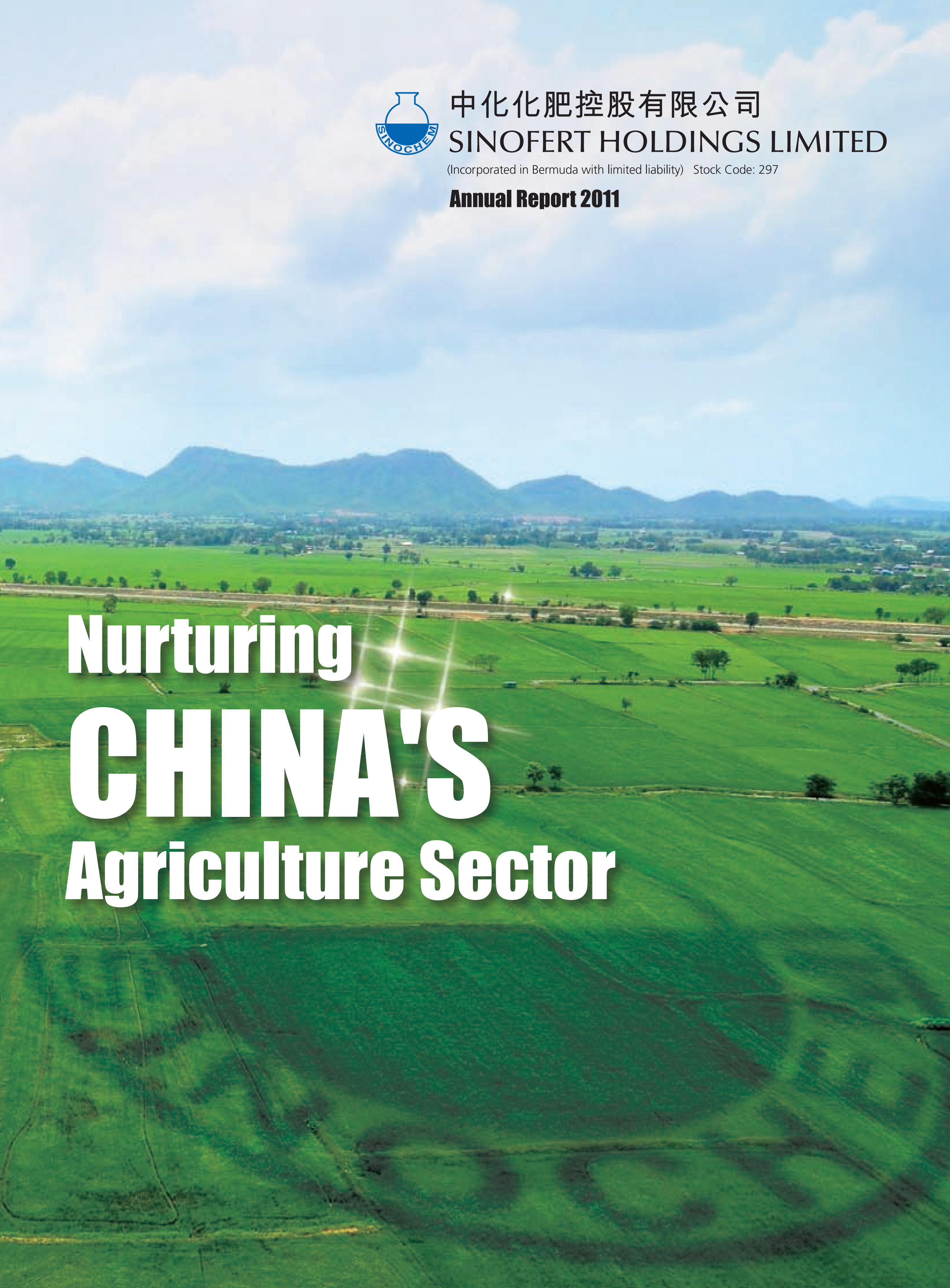
中化化肥控股有限公司

SINOFERT HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability) Stock Code: 297

Annual Report 2011



Nurturing CHINA'S Agriculture Sector

SINOFERT HOLDINGS LIMITED

2011

ANNUAL REPORT

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COMPANY PROFILE AND CORPORATE INFORMATION

Company Profile

Sinofert Holdings Limited (the "Company") successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries 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 2011, 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.

The Group strives to become a global leading provider of agricultural inputs and agrichemical services. 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 Group, which is one of China's earliest qualifiers of Fortune Global 500 and was selected for the 21th times, ranking the 168th in 2011. 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 Director

Mr. LIU De Shu *(Chairman)*

Executive Directors

Mr. FENG Zhi Bin *(Chief Executive Officer)*
Mr. Harry YANG

Non-Executive Directors

Mr. YANG Lin
Dr. Stephen Francis DOWDLE
Ms. XIANG Dandan *(appointed on 16 June 2011)*

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
Mr. Harry YANG

Nomination Committee

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

Corporate Governance Committee
(established on 22 March 2012)

Mr. FENG Zhi Bin *(Chairman)*
Mr. Harry YANG
Ms. ZHANG Xiao Qian
Ms. CHEUNG Kar Mun, Cindy

Chief Financial Officer

Mr. GAO Jian *(appointed on 28 July 2011)*

Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

Company Secretary

Ms. CHEUNG Kar Mun, Cindy
(appointed on 22 June 2011)

Auditors

Deloitte Touche Tohmatsu

Legal Advisers

Latham & Watkins

Principal Bankers

Bank of China
China Construction Bank
Industrial and Commercial Bank of China
Agricultural 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

Share Registrars and Transfer Offices

Bermuda (Principal office)

HSBC Securities Services (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

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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Beijing

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Fax	:	(10) 5956 9627
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FINANCIAL HIGHLIGHTS

Financial Highlights

(RMB'000 except for sales volume and basic earnings per share)

	2011	2010
Sales volume *(in 10,000 tons)*	**1,646**	1,551
Revenue	**36,684,963**	29,271,077
Gross profit	**2,089,689**	1,490,998
Profit before tax	**836,501**	482,862
Profit attributable to owners of the Company *(Note 1)*	**677,968**	535,711
Basic earnings per share *(RMB)*	**0.0966**	0.0763
Return on Equity	**5.20%**	4.25%
Debt to Equity Ratio *(Note 2)*	**40.55%**	55.27%

Note 1: Excluding the changes in the fair value of derivative component of the convertible loan notes, profit attributable to owners of the Company for the year ended 31 December 2011 and 2010 was RMB631 million and RMB437 million respectively.

Note 2: Calculated on the basis of total 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 receivables).


SINOFERT

CHAIRMAN'S STATEMENT

Dear Shareholders,

Hereby I present to all the shareholders the annual results of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011.

In 2011, the international economic environment continued to be at a downturn, and the economic growth rate in developed countries fell to a low point since the financial crisis. The steady operation of China's macro economy was confronted with a complicated and changing situation. There were pressures from both downward economic growth and price increase of commodities, while energy saving and emission reduction initiatives were faced with a tough situation. On the other hand, the global grain supply and demand maintained a tight balance, world grain price continued to increase and the characteristics of the time of high grain price became apparent. The grain demand in China continued to grow and grain security was still the fundamental starting point for agricultural development. In terms of the fertilizer industry, the market demand witnessed a clear recovery in 2011 and the prices of major fertilizers all went up, thus creating a relatively favourable external environment for the production and operation of the Group. However, at the same time, it should also be noted that the fertilizer industry was still faced with a rather complex operation situation due to more uncertain factors, with tighter domestic export policies, bigger pressure in energy saving and emission reduction, high price level of raw materials, oversupply of nitrogen and phosphate fertilizers, and fiercer competition within the industry.

In 2011, the Group grasped the inherent law of the development of the industry from a global perspective, and further clarified its development thoughts, unswervingly promoted its key strategies and strove to become "a global leading provider of agricultural inputs and agrochemical services" based on the Group's actual conditions. In terms of marketing and service, the Group consolidated strategic alliance with major international suppliers, continued to maintain a leading position on domestic potash market, transformed all of its distribution networks to profit centers, took an initial step in exploring the market-oriented operational potential of distribution networks and further optimized the outlet building and layout. By entrusting and consolidating the compound fertilizer plants, promoting economic responsibility system, technical upgrading, and managing and controlling raw material purchase, the industrial competitiveness of production enterprises was constantly enhanced. As for resource acquisition, the Group obtained certain phosphate resources in Xundian, Yunnan province and other resource projects were also steadily underway. In terms of scientific and technological innovation, the Engineering Technology Research Center of Phosphate and Compound Fertilizers was set up and a development plan for six series of new products centering on specialized fertilizer for regional crop was

Nurturing CHINA'S Agriculture Sector

specified. As for management, the Group adhered to a sound financial policy, actively pushed forward comprehensive risk management, executed the optimization of system and work flows, ensured the safety of the Group's assets and business operation, and safeguarded the interests of shareholders.

In 2011, the Group fully seized the market opportunities and achieved reasonable risk control. A total sales volume of 16.46 million tons was realized in 2011, up by 6.15% year on year, further consolidating the Company's leading status on domestic fertilizer market; turnover of the Group was RMB36,685 million, up by 25.33% year on year; profit for the year attributable to owners of the Company was RMB678 million, up by 26.55% year on year.

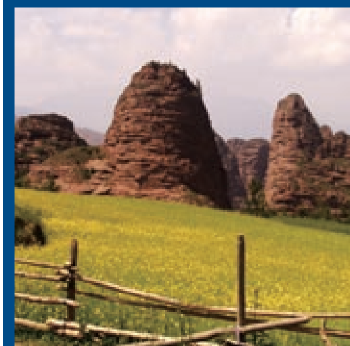
Working to maximize shareholders' value, the Board continuously improved corporate governance and optimized the corporate governance mechanism. In compliance with the Code on Corporate Governance Practices as required by the Stock Exchange of Hong Kong Limited, the Company held four regular meetings of the Board in 2011, at which the annual report, interim report, corporate development strategy and other important issues were reviewed and approved. At the same time, the Board of Directors also reviewed major investment projects and connected transactions and other matters through irregular meetings. The Audit Committee, the Remuneration Committee and the Nomination Committee under the Board implemented rights and obligations assigned by the Board in terms of the improvement on the Company's internal control, optimization of remuneration policy and improvement of governance structure.

In 2012, there are more uncertainties in the macro economic development and the development of the Group is faced with both opportunities and challenges. On one hand, the government will continue to increase the input in "agriculture, rural areas and farmers" and lead and support the modern agricultural construction by relying on scientific and technological innovation; on the other hand, problems in the fertilizer industry such as oversupply, unsmooth price transmission, higher pressure from environmental protection, rocketing production costs and restrains from export policies still exist. As one of the China's biggest fertilizer suppliers and distributors, the Group will continue to steadily promote the six key strategies, improving the customer-oriented marketing and service capability, realizing industrial development based on advanced manufacturing, acquiring resources from a global perspective, quickening scientific and technological innovation by focusing on the service industry, providing information guarantee for transformation and building the human resource engine for the promotion of sustainable development of the Company. The Group will further consolidate its leading position in domestic fertilizer industry, enhance its core competitive edge and sustainable profitability in order to fulfil our business goals for the year of 2012, and be committed to create value for the shareholders and wealth for society.

Last but not the least, on behalf of the Board, I would like to take this opportunity to extend our heartfelt appreciations to the customers, the management and employees of the Group. We hope to have your continuous support in our future development, and Sinofert's management and employees will bear in mind our mission, continue to innovate and speed up transformation and make more contribution to the development of the Company.

Liu De Shu
Chairman of the Board

Hong Kong, 22 March 2012

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MANAGEMENT REVIEW AND PROSPECT

Business Environment

In 2011, the macro economy of China was confronted with a complicated and changing situation, with the international political and economic environment changing frequently, the pressure on global inflation increasing constantly, and the price of bulk commodities in international market fluctuating in high level. The Chinese government implemented positive fiscal policy and prudent monetary policy, persisted in dealing with the relationship among maintaining a steady and rapid economic growth, adjusting the economic structure and managing the inflation expectation in a right way, strengthened and improved the control on macro-economy, curbed the price of commodities from increasing too fast, and realised the steady and rapid economic growth. Meanwhile, the government speeded up the transformation in economic development mode, improved the synergy of development and the competitiveness of the industry, stuck to the principle of supporting some industry while curbing some others, promoted the structure adjustment and optimization, and improved the potential for future development.

In 2011, the competition in the fertilizer industry was even fiercer and the operation pressure faced by the enterprises continued to increase. Global fertilizer was oversupplied and as the largest fertilizer producer and consumer in the world, China suffered from oversupply in nitrogen and phosphate, except potash. Meanwhile, favourable policies for the fertilizer industry were constantly tightened, constraints from environmental protection and resources strengthened, price of upstream resource products steadily increased and the supply and demand conflict of major production fuels such as power and natural gas became more prominent. At the same time, the national fertilizer export restriction policies and policies aiming at strengthening agriculture and benefiting farmers led to unsmooth transmission of fertilizer prices, bigger cost pressure for enterprises and larger difficulty in operation.

In 2011, due to the weaken US dollar and bioenergy industry, the financial and energy attribute of grain was constantly enhanced while the global grain supply and demand maintained a tight balance, world grain price continued to increase and the characteristics of the time of high grain price became apparent. With the most population in the world, due to the influence of population increase and changes in consumption structure, the grain demand in China continued to grow and grain security was still the fundamental starting point for agricultural development. Besides, the Chinese government continued to take various effective measures, realized yield growth in agriculture and income increase for farmers, and thus brought historic opportunities for the development of fertilizer companies.

Facing the fast changing market environment, the Group adopted the guiding principles of enriching business connotation, consolidating management foundation and improving earnings under the leadership of the Board. The Group strengthened measures to acquire natural resources, enhanced the core competitiveness of subsidiary production enterprises through technical progress and scientific and technological innovations, explored new development and operation model for the distribution network, improved value-added service in the distribution network, and realized sustainable development of the Group.

Financial Highlights

For the twelve months ended 31 December 2011, the Group's turnover reached RMB36,685 million, up by 25.33% year on year; and profit for the year attributable to owners of the Company reached RMB678 million, up by 26.55% year on year.

Product Operations

The Group adopted the established business operation strategy, and constantly strengthened the building of marketing and service abilities and the development of grass-root customer. Sales volume reached 16.46 million tons for the year ended 31 December 2011, up by 6.15% year on year, thus consolidating the Group's leading market status as the largest fertilizer distributor and service provider in China.

Potash Operation: Sales volume of potash fertilizer amounted to 3.16 million tons, up by 14.11% year on year. The Group took full advantage of resources in suppliers and customer management developed over the years, guaranteed the stability of domestic supply, accurately grasped the operation opportunities and maintained its leading status in domestic potash market. The Group actively conducted differentiated operation to improve operation quality, achieved further solid cooperation with international core suppliers and successfully closed 2011 joint negotiations on potash import. At the same time, the Group realized more stable strategic cooperation with domestic potash producer, Qinghai Salt Lake Industry Co., Ltd. (hereinafter referred to as "Salt Lake Industry"), which laid down a good foundation for the potash business operation in 2012.

Nitrogen Operations: Sales volume of nitrogen fertilizers reached 7.45 million tons, up by 9.20% year on year. The Group adopted the idea of strategic procurement, and built and improved the multi-layer supplier system, laying a solid foundation for the low-cost procurement. The procurement quantity from core suppliers in 2011 increased by 211% year on year. The Group strengthened its relationship with China Nitrogen Fertilizer Industry Association (CNFIA) and China Soda Industry Association, was promoted to the membership of Vice General Director of CNFIA and the membership of Vice Chairman of Market Trade Commission of CNFIA, became one of the 5+1 and 8+1 members of regular market seminar of the nitrogen industry and soda industry respectively, and thus its industrial influence became stronger.

Phosphate and Compound Fertilizer Operations: sales volume of phosphate fertilizer reached 3.05 million tons, down by 7.85% year on year; sales volume of compound fertilizers reached 2.43 million tons, up by 17.99% year on year. The Group improved suppliers system of domestic phosphate business, and achieved cost advantage by massive and stable procurement operation, as well as the enlarged proportion of direct sale to big customers. Taking advantage of the synergic and integrated business operation, the Group ensured its production subsidiaries to maintain relatively high capacity utilization and met the fertilizer demand from the distribution network.

Production

In 2011, phase II of the 0.6 million-ton ammonium phosphate project of Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. (hereinafter referred to as "Yunnan Three Circles") was completed and put into production, with an annual production capacity of 10.94 million tons for the Group. At the same time, the production enterprises constantly pushed forward lean management, pursued technology advance, and promoted low cost strategy, thus improving their production and supply capacity.

Sinochem Chongqing Fuling Chemical Fertilizer Company Limited, a subsidiary of the Group, produced 1.08 million tons phosphate and 0.55 million tons compound fertilizers for the year, reaching a new historical high level. Sinofert Compound Fertilizer Operation Center was set up based on Sinochem Fuling and integration among internal compound fertilizer enterprises was initiated and thus the advantage of internal resources, technologies and management was brought into full play. The annual production of urea in Sinochem Jilin Changshan Chemical Company Limited exceeded 0.31 million tons, reaching a new historical high level and projects such as polypeptide urea, slow release urea and flue gas desulfurization went into successful operation. Sinochem Pingyuan Chemical Company Limited restarted its idle equipment and explored the potential of its equipment, and annual urea production exceeded 0.98 million tons, reaching the best historic level. Sinochem Yantai Crop Nutrition Company Limited (hereinafter referred to as "Sinochem Yantai") continued to implement the marketing strategy of diversified products such as specialty fertilizer, slow and controlling release products and trace element products and those products already contributed 57% of the current profit of the company.

Network Distribution

In 2011, the Group enhanced the adjustment and optimization on the existing distribution network, built 12 new distribution outlets, adjusted the layout of 115 distribution outlets in Guangxi province and southwest of China in the year, and further improved distribution network coverage and more reasonable layout. Besides, to improve the operation capability of the network, the Group carried out classified and value-creation-oriented optimization among the network outlets. As at 31 December 2011, the Group owned 2,110 distribution outlets in total and fertilizer sales volume through the network reached 10.4 million tons.

Meanwhile, the Group continued to push forward organic growth of the distribution network, and actively explored the extension of channel terminals and retailing business of agricultural inputs. Experiences were accumulated in terms of township dealers and end-users by building Fert-Mart and franchise stores. As at 31 December 2011, 7 Fert-Mart and 146 franchise stores were newly built, and the distribution network owned 49,400 trading customers, including 23,900 township customers.

Internal Control and Management

The Group has always given top priority to the safety of shareholders' assets, promoted internal control and risk management under the principle of "balancing risk and return to support business development", constantly streamlined and revised various rules and regulations and formed a comprehensive and executable system. The sound governance structure and system laid a solid foundation for the Group's internal control and risk management.

The Group's internal control and risk management system was built according to the "Internal Control – Integrated Framework" published by The Committee of Sponsoring Organizations of the Treadway Commission (hereinafter referred to as "COSO") in the United States and the "Internal Control and Risk Management – A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants, and was in reference

to the "Basic Rules of the Enterprise Internal Control" and its referencing guidelines issued by five ministries and commission of China central government. The Group conducted annual assessment on comprehensive risk management, with full participation from the Company's headquarter, distribution network, share-holding production enterprises and overseas institutions, and reviewed the internal control factors and key risks and control points. The Group's internal control and risk management system provided effective support to better adjust to the changing domestic and international environment, served the Group's strategic transformation, ensured shareholders' interests, assets safety and strategic implementation, and also met the compliance requirements from the overseas regulatory organizations.

Corporate Social Responsibility

Based on the self-built distribution network in major agricultural provinces and counties in China, while making use of the function of agricultural supply and logistics delivery, the Group also actively built an agrochemical service system mainly featuring "agrochemical knowledge spreading system, on-site service providing system and soil-testing and scientific fertilization service system". The Group's agrochemical service system provided a reliable platform in guaranteeing agricultural inputs supply during spring plowing, stabilizing the agricultural inputs market, implementing the spirit of the No.1 Document issued by the Central Government, playing the role of a major channel as State-owned Enterprises and shouldering social responsibility.

The Group was the first in the domestic agricultural inputs industry to open 800 free hotlines and 400 service system, inviting professors majoring in plant nutrient, fertilizer and plant protection from China Agricultural University to answer questions regarding planting and fertilization from farmers online all year round. By the end of 2011, over 0.2 million phone calls were received and over 0.193 million farmers were directly benefited. The Group also cooperated with China National Radio and launched the charity program-Sinochem Agri-Plaza to spread knowledge on scientific fertilization and disease and pests resistance, which became a "classroom on the air" to provide direct service for farmers, with a total audience of over 1.4 billion. The Group also cooperated with Farmers' Daily and AgriGoods Herald and other publications serving the agriculture, rural areas and farmers and agricultural inputs industry, and sponsored the "special edition on agrochemical service" over the year, which became the "instructions" to directly guiding the scientific fertilization for farmers and agricultural inputs dealers.

Currently, the Group built demonstration villages of scientific fertilization in major agricultural counties in China and carried out service on scientific fertilization. Each demonstration village is guided by agrochemical experts and provides soil testing and promotion activities of fertilization demonstration which can benefit hundreds of millions of arable land and tens of millions of farmers.

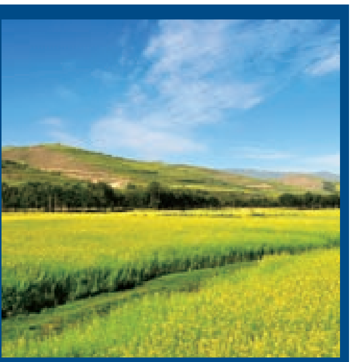
Starting from 2006, by relying on experts and laboratory equipment of Chinese Academy of Agricultural Sciences as well as the laboratories of share-holding production enterprises and over 2,100 distribution outlets, a three-layer soil-testing and scientific fertilization service system of "technological center-lab-service station (set in distribution outlets)" was gradually built and a service process of on-site sample collection by grass-root service providers-soil testing in laboratories and technological centers-fertilization formula given by experts based on testing results and planting demand was formed.

Outlook

In 2012, the world economy is confronted with more instable factors and uncertainties, there are more risks of another economic downturn and it is inevitable that economic growth will slow down. The stable operation of China's macro economy will be faced with a complicated and changing situation, with pressure from both the downward economic growth and price increase of commodities, and a tough situation on energy saving and emission reduction. The Chinese government will continue to implement an active fiscal policy and a prudent monetary policy, deal with the relationship among "maintaining stable economic growth, optimizing economic structure and reining in inflation" in a right way and speed up the promotion of transformation in economic development mode and economic structure adjustment. Under the general principle of "making steady progress", China's economy will be adjusted to a slower growth rate and the transformation of economic development mode and economic structure adjustment will be further deepened.

In 2012, China's Central Government will continue to strengthen favourable policy aiming to benefit and support "agriculture, rural areas and farmers". On 1 February, the Central Government issued the No.1 Document, highlighting scientific and technological innovation in agriculture, focusing on the promotion of scientific and technological innovation in agriculture in efforts related to "agriculture, rural areas and farmers" and continuing to strengthen support for agriculture. The Central Government has been making continuous additional input in agriculture, improving the infrastructures and promoting the steady development of agriculture and constant increase of farmers' income, and thus there is a rosy prospect for the agricultural modernization. The positive agricultural development environment lays a solid foundation for fertilizer industry's recovery and its constant and fast development. With the nationwide grain production capacity expansion program being carried out, domestic fertilizer market will regain stable and long term growth momentum.

In recent years, with newly added production capacity increasing at a fast pace, domestic fertilizer market suffered more apparently from excessive oversupply, and the trend of industrial recombination and integration became more obvious in both production and distribution sectors. As a leading enterprise in China's fertilizer industry, the Group will center on the six strategies of marketing, resources, industry, science and technology, human resources and information, further promote the integration of mine and fertilizer, the integration of fertilizer and chemicals, the integration of production and marketing and the integration of product and service, strive to become a global leading provider of agricultural inputs and agrochemical services, realize sustainable development of the Group, create value for shareholders, and make greater contribution for national food security and agricultural development.



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the twelve months ended 31 December 2011, sales volume of the Group was 16.46 million tons, and turnover was RMB36,685 million, up by 6.15% and 25.33%, respectively, over the corresponding period of 2010.

For the twelve months ended 31 December 2011, gross profit of the Group was RMB2,090 million, up by RMB599 million over the corresponding period of 2010. The profit for the year attributable to owners of the Company was RMB678 million, up by RMB142 million over the corresponding period of 2010. Excluding the changes in fair value of derivative component of the convertible loan notes, profit for the year attributable to owners of the Company would be RMB631 million, up by RMB194 million over the corresponding period of 2010. The performance of the Group showed a recovery growth.

I. Operation Scale

1. Sales Volume

For the twelve months ended 31 December 2011, sales volume of the Group was 16.46 million tons, up by 6.15% over the corresponding period of 2010. As the fertilizer market recovered during 2011, sales volume of imported fertilizers went up by 6.52% year on year to 3.45 million tons and sales volume of domestic fertilizers went up by 7.83% year on year to 12.65 million tons with the Group taking advantage of integration operations of upstream and downstream, and enhancing the client-oriented marketing service.

In terms of product composition, the Group maintained potash business, especially the imported potash business with relatively sharp competitive edge, through innovative potash business operation and sales expansion. Sales volume of potash increased by 14.11% year on year. By relying on the product supply from upstream joint venture production plants of the Group and the building of core supplier system home and abroad and expanded sales volume through the distribution network in downstream, sales volume of nitrogen and compound fertilizers increased by 9.20% and 17.99% respectively year-on-year. Due to the decreased sales volume of imported phosphate affected by international and domestic phosphate price inversion, sales volume of phosphate was down by 7.85% year on year. However, as the Group further strengthened the strategic alliance with major suppliers, sales of domestic phosphate remained stable growth.

2. Turnover

For the twelve months ended 31 December 2011, turnover of the Group was RMB36,685 million, up by RMB7,414 million, or 25.33% over the corresponding period of 2010. The growth rate of turnover was higher than the 6.15% growth rate of sales volume, which was mainly caused by the increasing prices in 2011. The Group's average selling price was 18.07% up over the year of 2010.

Table 1:

	For the twelve months ended 31 December			
	2011		2010	
	Turnover *RMB'000*	**As percentage of total turnover**	Turnover *RMB'000*	As percentage of total turnover
Potash fertilizers	**9,164,189**	**24.98%**	7,321,999	25.01%
Nitrogen fertilizers	**12,446,459**	**33.93%**	9,875,618	33.74%
Compound fertilizers	**6,401,861**	**17.45%**	4,547,083	15.53%
Phosphate fertilizers	**7,438,971**	**20.28%**	6,380,334	21.80%
Others	**1,233,483**	**3.36%**	1,146,043	3.92%
Total	**36,684,963**	**100.00%**	29,271,077	100.00%

3. Turnover and Result by Segment

The operating segments of the Group consist of sourcing and distribution of fertilizers and agricultural related products ("Sourcing and Distribution Segment") and production and sales of fertilizers ("Production Segment").

The following is an analysis of the Group's turnover and profit by operating segment for the twelve months ended 31 December 2011 and the corresponding period of 2010:

Table 2:

2011

	Sourcing & Distribution *RMB'000*	**Production** *RMB'000*	**Eliminations** *RMB'000*	**Total** *RMB'000*
Turnover				
External sales	**30,724,278**	**5,960,685**	**–**	**36,684,963**
Inter-segment sales	**212,907**	**2,719,977**	**(2,932,884)**	**–**
Total	**30,937,185**	**8,680,662**	**(2,932,884)**	**36,684,963**
Segment profit	**684,312**	**380,976**		**1,065,288**
2010				
Turnover				
External sales	25,324,421	3,946,656	–	29,271,077
Inter-segment sales	358,022	2,970,394	(3,328,416)	–
Total	25,682,443	6,917,050	(3,328,416)	29,271,077
Segment profit	451,862	73,198		525,060

Segment profit represents the profit earned by each segment without deducting unallocated expenses and incomes, changes of fair value in derivative financial instruments and finance costs. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and performance assessment.

The Group's results for the twelve months ended 31 December 2011 improved remarkably over the corresponding period of 2010 as the Group seized the market opportunity, controlled the risks, and enlarged the profit with the increasing domestic fertilizer prices. For the twelve months ended 31 December 2011, the Sourcing and Distribution Segment realized a profit of RMB684 million, up by RMB232 million over for the corresponding period of 2010, which was mainly due to the improved overall cost control with client-oriented marketing service and supply alliance with core suppliers, on the basis of overall market recovery and increasing price of fertilizers. The Production Segment realized a profit of RMB381 million, up by RMB308 million over the corresponding period of 2010, which was mainly attributable to continuous promotion of lean management, implementation of technological innovation, and adoption of low cost strategy.

II. Profit

1. Gross profit

For the twelve months ended 31 December 2011, gross profit of the Group was RMB2,090 million, up by RMB599 million over the corresponding period of 2010.

The Group adopted different strategies for different products. In 2011, the potash market continued to recover and the overall gross profit of potash increased mildly and steadily; the market price of nitrogen was maintained in a relatively high level with slight fluctuation, and the Group took full advantage of "the integration of production and marketing, trading and distribution, and internal and external trade" to maintain the profitability of the Group, which led to the remarkable increase of gross profit compared with 2010; the Group brought into full play the advantage of high-quality, adequate and cost-competitive product supply from upstream controlling enterprises and the distribution network system to guarantee the steady increase of gross profit of compound fertilizers. However, the profit level and overall gross profit margin of phosphate went down year on year due to decreased sales volume of imported phosphate affected by the international and domestic phosphate price inversion.

In summary, except for the phosphate business, profitability of the Group's other types of fertilizers maintained a steady improvement.

2. Share of results of jointly controlled entities and associates

Share of results of jointly controlled entities: For the twelve months ended 31 December 2011, the share of results of jointly controlled entities of the Group was a profit of RMB75 million, up by RMB17 million compared to the profit of RMB58 million for the corresponding period of 2010. This was mainly attributable to that all the jointly controlled entities with phosphate business of the Group realized more profit than 2010 due to the increasing fertilizer market price in 2011.

Share of results of associates: For the year ended 31 December 2011, the share of results of associates of the Group amounted to RMB201 million, up by RMB17 million over the corresponding period of 2010. This was mainly attributable to that the share of results of associates of the Group increased after the merger (hereinafter referred to as the "Merger") of Qinghai Salt Lake Potash Co., Ltd. (hereinafter referred to as "Qinghai Salt Lake") and Qinghai Salt Lake Industry Group Co., Ltd. (hereinafter referred to as "Salt Lake Group").

3. Income tax expenses

For the twelve months ended 31 December 2011, income tax expense of the Group was RMB151 million, up by RMB150 million over the corresponding period of 2010. This was mainly attributable to the increase in overall profit which resulted in an increase in corresponding income tax expenses for the year.

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

4. Profit attributable to owners of the Company

For the twelve months ended 31 December 2011, profit attributable to owners of the Company was RMB678 million, up by RMB142 million over the corresponding period of 2010. This was mainly attributed to the fact that the Group actively took operational measures, gave full play to the advantage of the complete industrial chain, strived to increase sales volume and improved the profit level.

For the twelve months ended 31 December 2011, the net profit margin was 1.85%, which is calculated by dividing turnover with profit attributable to owners of the Company. Excluding the effect of the changes in fair value of the derivative component of convertible loan notes, the net profit margin was 1.72%.

III. Expenditures

Selling and distribution expenses: For the twelve months ended 31 December 2011, selling and distribution expenses were RMB715 million, down by RMB48 million or 6.28% over that of RMB763 million for the corresponding period of 2010. Such a decrease was mainly attributable to the reduction in logistics costs, such as costs for warehousing and storage compared with 2010, as the Group persistently advocated the principle of reducing the cost and improving the efficiency, while continued to accelerate the inventory turnover.

Administrative expenses: For the twelve months ended 31 December 2011, administrative expenses were RMB546 million, up by RMB46 million or 9.14% over that of RMB500 million for the corresponding period of 2010. This was mainly attributable to business scale expansion and corresponding increase of administrative expenses.

Finance costs: For the twelve months ended 31 December 2011, finance costs were RMB342 million, up by RMB27 million, or 8.57% over that of RMB315 million for the corresponding period of 2010. This was mainly attributable to the increase in borrowing so as to support the increase in average inventory level and the increase in loan interest rate by 0.75% under the tight money policy in 2011 compared with 2010, which occupied more capital and led to the increase of finance costs correspondingly.

IV. Other Income and Gains

For the twelve months ended 31 December 2011, the Group's other income and gains amounted to RMB169 million, down by RMB203 million, or 54.55% over that of RMB372 million for the corresponding period of 2010. The major reason was a gain realized from the disposal of Pingyuan Xianglong Paper and Tianji Sinochem Gaoping Chemicals Co., Ltd. in 2010.

V. Other Expenses and Losses

For the twelve months ended 31 December 2011, the Group's other expenses and losses amounted to RMB218 million, up by RMB75 million or 52.59% over that of RMB143 million for the corresponding period of 2010. The main reasons were:

1. Impairment loss on available-for-sale investments increased by RMB52 million. The main reason was that the Group held shares of China XLX Fertiliser Ltd. whose share price continued to decrease since the beginning of 2011 with no signs for recovery in the near future. Impairment loss on available-for-sale investments was made based on the share price of China XLX Fertiliser Ltd. as at 31 December 2011.

2. Impairment loss on fixed assets impairment increased by RMB41 million over the corresponding period of 2010. This was mainly due to the idle and aging of the fixed assets in the Group's subsidiaries. The Group recognized the difference between the net realizable value and the book value of the production facility as impairment loss on fixed assets.

3. Write-down of inventory decreased by RMB15 million. The main reason of such decrease was due to the recovery of market price of fertilizers. The Group made inventory write-down of RMB55 million based on the realizable value as at 31 December 2011.

VI. Impairment Loss on Goodwill

For the twelve months ended 31 December 2011, impairment loss on goodwill of the Group was RMB265 million, up RMB265 million over the corresponding period of 2010. This was mainly attributable to the fact that the production cost of a subsidiary with nitrogen business of the Group remained high due to the rising price of raw material while its profit was decreasing due to the stable selling price affected by domestic supply and demand relationship. Based on the forecasted future cash flow and the estimated discount rate of 10.4%, recoverable amount was lower than the book value of goodwill and long-term assets. Therefore, impairment loss on goodwill was made for 2011.

VII. Gains in the Deemed Dilution of an Associate

For the twelve months ended 31 December 2011, gains in the deemed dilution of an associate of the Group was RMB341 million. This was mainly attributable to the fact that in the first half of 2011, an associate of the Group, Qinghai Salt Lake merged with Salt Lake Group. Qinghai Salt Lake acquired the businesses of Salt Lake Group by issuance of new shares to the existing shareholders of Salt Lake Group in exchange of all the outstanding shares of Salt Lake Group. Upon completion of the Merger, the equity interest held by the Group in Salt Lake Industry decreased from 18.49% to 8.94%. The Group accounted for the reduction of equity interest in Salt Lake Industry as a result of the Merger as a deemed dilution in investment in an associate and recognized the corresponding gains.

VIII. Inventory Turnover

The inventory balance of the Group as at 31 December 2011 was RMB7,464 million, up by RMB2,326 million, or 45.27% over that of RMB5,138 million as at 31 December 2010. This was mainly attributable to the fact that Spring Festival in 2012 and spring fertilizer stocking were relatively earlier than before, which led to the increase of inventories. Inventory turnover days (Note) decreased from 71 days in 2010 to 66 days in 2011 as the Group adhered to operation strategy of "quick-buy-and-quick-sell".

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.

IX. Trade and Bills Receivables Turnover

The balance of the Group's trade and bills receivables as at 31 December 2011 was RMB1,709 million, down by RMB1,351 million or 44.16% over that of RMB3,060 million as at 31 December 2010. This was mainly because that the Group increased payment collection in cash and reduced payment collection in bills, thus reducing the balance of bills receivables as at 31 December 2011 significantly over that as at 31 December 2010.

With the 25.33% increase in turnover year on year and the decrease of the balance of trade and bills receivables, trade and bills receivables turnover day (Note) decreased from 27 days in 2010 to 23 days in 2011.

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 revenue, and multiplied by 360 days. (The trade and bill receivable balance excluded the bills discounted to the banks)

X. Interests in Jointly Controlled Entities

As at 31 December 2011, the balance of the Group's interests in jointly controlled entities was RMB719 million, up by RMB129 million or 21.95% over that of RMB589 million as at 31 December 2010. The main reason was that the Group increased its investment of RMB80 million in Yunnan Three Circles in 2011, while all the jointly controlled entities realized profit due to the recovery of fertilizer market. Therefore, interests were increased in jointly controlled entities by RMB49 million according to equity accounting method.

XI. Interests in Associates

The balance of the Group's interests in associates as at 31 December 2011 was RMB7,754 million, up by RMB562 million, or 7.82% over that of RMB7,192 million as at 31 December 2010, including:

1. Shares of results of associates generated in the twelve months ended 31 December 2011 were RMB201 million, which increased interests in associates.

2. The Group recognized an increase of RMB341 million in interests in deemed dilution of an associate due to the Merger during the reporting period. Upon the completion of the Merger, the equity interest held by the Group in Salt Lake Industry declined to 8.94% from 18.49%. However, Sinochem Corporation, the Company's intermediate holding company, assigned its shareholders' voting right and right to nominate representation to the board of directors of Salt Lake Industry relating to 15.01% of equity interest held by Sinochem Corporation in Salt Lake Industry to the Group and the assignment was irrevocable. Therefore, the Group maintained the significant influence over Salt Lake Industry after the Merger.

XII. Available-for-sale Investments

As at 31 December 2011, the balance of the Group's available-for-sale investments was RMB173 million, down by RMB93 million or 34.98% over that of 267 million for the corresponding period of 2010. This was mainly attributable to:

1. The Merger completed in March 2011 made the accounting of the shares in former Salt Lake Group held by the Group convert from available-for-sale investments to interest in associates, decreasing available-for-sale investments by RMB22 million.

2. A depreciation of RMB69 million as a result of fair value change in shares in China XLX Fertiliser Ltd. held by the Group as at 31 December 2011.

XIII. Borrowings

As at 31 December 2011, the balance of the Group's borrowings was RMB5,421 million, down by RMB1,145 million or 17.44% over that of RMB6,566 million as at 31 December 2010. This was mainly because the Group repaid part of the borrowings by cash inflows in view of relatively good operating cash flow.

XIV. Trade and Bills Payables

As at 31 December 2011, the balance of the Group's trade and bills payables was RMB5,532 million, up by RMB2,956 million, or 114.75% over that of RMB2,576 million as at 31 December 2010. This was mainly attributable to the fact that the Group stocked up in advance to secure the sales in Spring as Spring Festival was earlier in 2012 than before, which led to the increase of inventory, and the increase of RMB3,255 million in the balance of trade payables as at 31 December 2011 was made due to 90 days of credit provided by suppliers; the balance of bills payables as at 31 December 2011 decreased by RMB299 million over that as at 31 December 2010, which was mainly attributable to less payments made in bills payable by the Group.

XV. Convertible Loan Notes

The Group issued 130,000 zero-coupon notes with face value of HK$10,000 each on 7 August 2006, which expired on 7 August 2011. As at 7 August 2011, convertible loan notes with face value of HK$0.35 million were converted into 96,153 ordinary shares with face value of HK$0.10, and the remaining notes with face value of approximately HK$621 million were repaid as they fell due at the consideration of approximately HK$790 million (approximately RMB653 million).

In 2011, the gain arising from the changes in fair value of derivative financial instruments and the amortized finance costs to convertible loan notes were RMB47 million and RMB26 million, respectively, which were reflected in the consolidated statement of comprehensive income for the reporting period.

XVI. Other Financial Indicators

Basic earnings per share for the twelve months ended 31 December 2011 was RMB0.0966, up by RMB0.0203 over that of RMB0.0763 for the same period of 2010. Return on equity (ROE) for the twelve months ended 31 December 2011 was 5.20%, increased by 0.95 percentage points from that of 4.25% for the same period of 2010. This was mainly due to the increasing profit of the Group.

Table 3:

	2011	2010
Profitability		
Earnings per share (RMB) *(Note 1)*	**0.0966**	0.0763
ROE *(Note 2)*	**5.20%**	4.25%

Note 1: Calculated on the basis of profit (loss) attributable to owners 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 profit (loss) attributable to owners of the Company for the reporting period divided by equity attributable to the shareholders of the Company as at the end of the reporting period.

As at 31 December 2011, the Group's current ratio was 1.15, and the debt-to-equity ratio was 40.55%, maintaining a stable financial structure.

Table 4:

	2011	2010
Solvency		
Current ratio *(Note 1)*	**1.15**	1.21
Debt-to-Equity ratio *(Note 2)*	**40.55%**	55.27%

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

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 receivables).

XVII. Liquidity and Financial Resources

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

As at 31 December 2011, cash and cash equivalents of the Group amounted to RMB302 million, which was mainly denominated in RMB and US dollar.

Set out below is an analysis of borrowings of the Group:

Table 5:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Bank borrowings, secured	**–**	119,794
Bank borrowings, unsecured	**2,939,931**	3,967,479
Bonds		
Principal amount	**2,500,000**	2,500,000
Less: amortized transaction costs	**(18,565)**	(20,915)
Total	**5,421,366**	6,566,358

Table 6:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Carrying amount repayable		
Within one year	**2,349,358**	2,993,369
More than two years, but not exceeding five years	**583,900**	1,083,904
Exceeding five years	**2,488,708**	2,489,085
Total	**5,421,366**	6,566,358

Table 7:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Fixed-rate borrowings	**3,275,343**	2,831,783
Variable-rate borrowings	**2,146,023**	3,734,575
Total	**5,421,366**	6,566,358

As at 31 December 2011, the Group had banking facilities of RMB38,884 million, including US$1,905 million and RMB26,880 million. The amount of utilized banking facilities was RMB5,904 million and that of unutilized banking facilities was US$1,905 million and RMB20,976 million.

As at 31 December 2011, certain property, plant and equipment, prepaid lease payments and bills receivables with carrying amount of RMB19 million and RMB7 million, respectively, were pledged to secure banking facilities granted to the Group. As at 31 December 2011, no banking facilities was utilized.

XVIII. Operation and Financial Risks

The Group's major operation risks: The recovery of the world economy is still faced with great uncertainty; fertilizer price is quite volatile in the domestic market troubled by overproduction and fertilizer industry restructuring and market competition will get increasingly intense as market-oriented reforms deepened.

The Group's major 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 amount of the Group's foreign currency dominated assets and liabilities are immaterial. The fluctuations of exchange rates did not have a significant impact on the performance of the Group. In addition, the management continued to monitor and control the above risks so as to reduce any potential negative impact 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 statement of financial position as at 31 December 2011. 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 fulfil the operation requirements as necessary and maintained a stable cash flow of the Group. The management further monitored the application of bank borrowings and abided by the terms of bank borrowings.

XIX. Contingent Liabilities

As at 31 December 2011, the Group had no material contingent liabilities.

XX. Capital Commitment

Table 8:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition project, property, plant and equipment		
Contracted but not provided for	**19,085**	26,117
Authorized but not contracted for	**2,095,810**	1,848,543
Total	**2,114,895**	1,874,660

On 8 January 2012, the Group entered into a share purchase agreement to acquire 100% of interest in Xundian Lomon Phosphorus Chemical Co., Ltd. 尋甸龍蟒磷化工有限責任公司 with a consideration of RMB1.38 billion. The Group planned to settle the consideration entirely by cash funded by internal resources of the Group and bank loans. Such consideration is included in the above capital commitment categorized as authorized but not contracted for.

Save as above, the Group plans to finance the above capital expenditure by internal resources, and has no other material plans for major investment or capital asset acquisitions.

XXI. Major Investments and Disposal

As at 31 December 2011, the Group had no material investment expenditure or disposal.

XXII. Human Resources Capital

As at 31 December 2011, the Group had about 10,170 full-time employees (including those employed by controlled entities), and their remuneration is 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 on page 51.

CHRONICLE OF EVENTS

January 2011

A credit sales investigation team led by Mr. Wen Zaixing, Deputy Director of Department of Market Supervision, Ministry of Commerce went to Fujian and reviewed the achievement and experience of the Group in credit sales.

Mr. Feng Zhi Bin, CEO of the Company, was elected Vice Chairman of the 5th Council of China Nitrogen Fertilizer Industry Association.

February 2011

The Group signed the 2011-2014 Phosphate Import Agreement with OCP from Morocco.

The signing ceremony of the Strategic Cooperation Framework Agreement with Kazphosphate LLP was held in the Great Hall of the People.

A nationwide campaign for the promotion of Sinochem agricultural potash launched by the Group kicked off with the presence of the academic Professor Yuan Longping and officers from the State Administration for Industry & Commerce (SAIC) and the Ministry of Agriculture.

March 2011

The Group released its 2010 Annual Results.

Sinochem Corporation, the Company's intermediate holding company, assigned to Sinochem Fertilizer Co., Ltd., a subsidiary of the Company, its shareholders' voting right and right to nominate representation to the board of directors of Qinghai Salt Lake Industry Co., Ltd..

April 2011

The Board of Directors of the Company reviewed and approved the proportional capital injection enhancement in Yunnan Three Circles, which aimed at promoting the construction of Yunnan Three Circles phase II project of 600,000 tons of ammonium phosphate.

The Group participated in the launching ceremony of the "Nationwide Grand Campaign for Grain Yield Stability and Improvement & Activities of facilitating the application of Science and Technology into the Countryside" hosted by the Ministry of Agriculture.

The State Administration for Industry & Commerce (SAIC) issued a feature article to support the Group for the first time regarding the Group's anti-counterfeiting activities on Canadian potash.

May 2011

Mr. Feng Zhi Bin, CEO of the Company, led the Company's delegation to attend the 79th International Fertilizer Industry Association (IFA) Annual Conference held in Canada and exchanged views with representatives from over 50 international fertilizer producers, traders and institutions focusing on market conditions of the industry.

June 2011

Mr. Feng Zhi Bin, CEO of the Company, led the Company's delegation to attend the China Qinghai Investment & Trade Fair for Economic Restructuring.

The Company held its 2011 annual general meeting.

July 2011

The Engineering Research Center of Sinofert Chongqing Phosphate and Compound Fertilizers, the Group's first research center, was registered.

Mr. Gao Jian succeeded Mr. Chen Feng as the Chief Financial Officer of the Company.

August 2011

The Group was granted "Ten Trusted Brands by Farmers in 2011" and "Trusted Company by Farmers in 2011" by the Agriculture and Rural Investment Committee of the Investment Association of China.

The Group released its 2011 Interim Results.

September 2011

Mr. Feng Zhi Bin, CEO of the Company, led the Company's delegation to attend The Fertilizer Institute (TFI) Annual Conference held in the United States.

The Group organized IFA-China Seminar "the modern agriculture and unlimited opportunities". It was the first time for IFA to organize a seminar for a specific country, which fully reflected the increasing influence of China's fertilizer industry in the world.

October 2011

The Group completed the purchase of remaining equity from the existing shareholder of Sinochem Yantai Crop Nutrition Co., Ltd. and became the sole owner of the company.

The graduation ceremony of teacher's training/the opening ceremony of demonstration schools of "MOA (Ministry of Agriculture) -Sinofert Farmers' Field School" was held. The project was jointly established by the Group and the Management Institute of the MOA.

The Group was selected as a survey company by "China Economy Prosperity Index", being the first agri-business related company to be included in the index.

Seminar on New Application Technology of High Yield Rice/Promotion of Rice Fertilizers was held in Hunan. It was co-organized by the Group and China National Hybrid Rice R&D Center.

November 2011

Mr. Feng Zhi Bin, CEO of the Company, attended the ceremony of Yunnan Three Circles, a jointly controlled company of the Group, on the commencement of production after the completion of Phase II project of 600,000 tons of ammonium phosphate.

The Group and Union Pay jointly initiated the benefiting-farmers campaign of "Micro Fertilizers being the gift while paying with Union Pay cards" in nearly 100 Sinofert stores in Guangdong, Jiangsu, Fujian and Sichuan provinces.

DIRECTORS AND SENIOR MANAGEMENT

Directors

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

Mr. LIU De Shu, aged 59, 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 as the President and the Chief Executive Officer of Sinochem Group. Before joining Sinochem Group, 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 Group. These positions include the chairman of Sinochem Corporation, the vice chairman of Dalian West Pacific Petrochemical Co., Ltd., the chairman of Sinochem Europe Holdings Plc., the chairman of Sinochem American Holdings Inc. and the director of Manulife-Sinochem Life Insurance Co. Ltd., China World Trade Center Co., Ltd and Commercial Aircraft Corporation of China, Ltd. All these companies are not publicly listed. In addition, Mr. Liu has been a chairman and a non-executive director of Far East Horizon Limited (in which Sinochem Group is its substantial shareholder) since December 2010, whose shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 3360).

Mr. Liu has over 27 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 Group 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". Currently, Mr. Liu is a member of the 11th National Committee of the Chinese People's Political Consultative Conference, a director of International Academy of Management (IAM), the vice president of China Chamber of International Commerce and the vice president of China Shippers' Association.

Mr. FENG Zhi Bin – Executive Director and Chief Executive Officer, and the Chairman of Corporate Governance Committee

Mr. FENG Zhi Bin, aged 48, joined the Company as Executive Director and Chief Executive Officer in July 2010. He is also the Chairman of the Corporate Governance Committee. Mr. Feng graduated from Renmin University of China with a qualification of master of philosophy and subsequently obtained an EMBA degree from China Europe International Business School. Mr. Feng has over 20 years of experience in corporate management and operations. Prior to his appointment as Executive Director and Chief Executive Officer of the Company, Mr. Feng was appointed as the assistant to president of Sinochem Group in July 2000 and was promoted to the position of vice president of Sinochem Group in January 2006. Mr. Feng has been appointed as director of Sinochem Corporation since June 2009. During 2008 to 2010, Mr. Feng had been appointed as chairman and general manager of Sinochem Lantian Co., Ltd., and director and chairman of the board of Zhejiang Int'l Group Co., Ltd., an affiliate of Sinochem Group listed on the Shenzhen Stock Exchange (stock code: 000411). Mr. Feng had previously held various positions with the subsidiaries and affiliates of Sinochem Group, overseeing the management of the Sinochem Group's investment business, fluorine chemicals business, leasing and non-banking financial businesses including trust and fund management.

Prior to 2000, Mr. Feng was the deputy general manager of the corporate management department, general manager of the human resources department and the corporate development department of China National Machinery Import and Export Corporation. He then became in charge of Genertec Industrial Co. Ltd. and had worked for the Policy Research Office of the CPC Organisation Department. During 1991 to 1993, Mr. Feng had first served as the deputy secretary of the CPC Committee of Dengzhou Town, Penglai, Shandong Province and then subsequently served as the deputy director of the Economic Development Bureau of the Economic Development District of Yantai Municipality. Mr. Feng was an assistant lecturer and a lecturer of Renmin University of China from July 1986 to February 1990.

Mr. Harry YANG – Executive Director and Deputy General Manager

Mr. Harry YANG, aged 49, is an Executive Director and Deputy General Manager of the Company, mainly responsible for overseeing the Company's investor relations, legal, information technology and logistic management. He is also a member of the Nomination Committee, the Remuneration Committee and the Corporate Governance Committee of the Company. 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 Group 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 had served Sinochem Group for more than 20 years. He possesses years of experiences in international trade and fertilizer business with a deep understanding of the international fertilizer market.

Mr. YANG Lin – Non-executive Director

Mr. YANG Lin, aged 48, joined the Company as Non-executive Director in August 2010. Mr. Yang graduated from Tianjin University of Commerce with a bachelor's degree in Economics majoring in commercial enterprise management. He completed a course of enterprise management in University of Stuttgart in Germany from 1990 to 1993 and is currently studying an EMBA course at Xiamen University. Mr. Yang has over ten years' experience in enterprise treasury management. Mr. Yang worked as an assistant manager at Siemens AG and a product manager at Wella AG during 1993 to 1994. He joined Sinochem Group in 1994 and had held various positions, including assistant to general manager of the planning and financial department, deputy manager of the finance department, deputy general manager of the merger and acquisition department, general manager of the treasury department, deputy general accountant of Sinochem Group, and deputy CFO of Sinochem Corporation. Mr. Yang is currently the general accountant of Sinochem Group and the chief financial officer of Sinochem Corporation. He also holds directorships and senior management positions with various subsidiaries and/or affiliates of Sinochem Group. Mr. Yang was a supervisor of China State Construction Engrg. Corp. Ltd., a company listed on the Shanghai Stock Exchange (stock code: 601668), during 2007 to 2010. Since October 2009, Mr. Yang has been a non-executive director of Far East Horizon Limited (in which Sinochem Group is its substantial shareholder), whose shares are currently listed on the Main Board of The Stock Exchange of Hong Kong Limited (stock code: 3360). In addition, Mr. Yang has been a director of Sinochem International Corporation, a subsidiary of Sinochem Group listed on the Shanghai Stock Exchange (stock code: 600500) since June 2010.

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 61, joined the Company as a Non-executive Director in July 2005. He is also a member of the Nomination Committee and the Remuneration Committee of the Company. Dr. Dowdle is currently the President of PCS Sales (USA) Inc., a wholly-owned subsidiary of Potash Corporation of Saskatchewan Inc. ("PotashCorp"). He is a board member of Canpotex Limited, an export marketing association composed of the three potash producers (including PotashCorp) in Saskatchewan, Canada, and he is also a board member of Phosphate Chemicals Export Association, Inc., an export marketing association composed of two 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 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 advanced field research at Central China Agricultural University in Wuhan, China. Dr. Dowdle has over 26 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.

Ms. XIANG Dandan – Non-executive Director

Ms. XIANG Dandan, aged 45, joined the Company as a Non-executive Director in June 2011. Ms. Xiang graduated from Changchun University in Computer Software Engineering in 1987. She completed training courses of Digital System Control in Automobile Research Institute in Changchun, China in 1991 and obtained certificates from Novell Computer Network Engineer Training Center in Wyoming, USA in 1996. Ms. Xiang has been the director of International Sales Department (Fertilizer and Feed) of PCS Sales (Canada), Inc. since January 2011. Prior to that, she was the manager of International Sales Department and the director of International Sales Department (Fertilizer and Feed) of PCS Sales (USA), Inc. from January 2006 to June 2010 and from July 2010 to December 2010, respectively. Ms. Xiang joined Potash Corporation of Saskatchewan Inc. in 1999, and had previously worked as a Program Analyst, a supervisor for Computer Networking and Data Communication, and the manager of Market Research Department. Ms. Xiang possesses more than 12 years of experience in fertilizer business with a deep understanding of the international fertilizer market.

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

Mr. KO Ming Tung, Edward, aged 51, 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. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 20 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 Wai Chun Group Holdings Limited and Interchina Holdings Company Limited, and a non-executive director of Rainbow Brothers Holdings Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange. Mr. Ko was previously a non-executive director of New Smart Energy Group Limited and an independent non-executive director of China Pipe Group Limited and Kai Yuan Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange.

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

Dr. TANG Tin Sek, aged 53, was appointed as an Independent Non-executive Director of the Company in April 2000. 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 31 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 whose shares are listed on the Main Board of the Stock Exchange.

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

Mr. TSE Hau Yin, Aloysius, aged 64, was appointed as an Independent Non-executive Director of the Company in June 2007. 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 the past president and the current member of the Audit Committee of the HKICPA. Mr. Tse 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 a member 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 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. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the Main Board of The Stock Exchange of Hong Kong Limited, from 2004 to 2010.

Senior Management

Mr. WANG Chuan – Deputy General Manager

Mr. WANG Chuan, aged 58, is the Deputy General Manager of the Company. Mr. Wang graduated from Central Radio & TV University of China in 1985 with an associate degree in Chinese Language & Literature. In February 1977, Mr. Wang joined Fuling Chemical Industry Co., Ltd. ("Fuling Chemical"), which was acquired by Sinochem Group in April 2004 and renamed as Sinochem Fuling Chongqing Chemical Industry Co., Ltd., and had served as the Deputy Director of the phosphoric acid workshop of Fuling United Phosphate Factory, Education Chief, Deputy Director of the Plant and the Deputy General Manager of Fuling Chemical Industry Co. Since 1993, Mr. Wang had been appointed as the General Manager of Fuling Chemical. Mr. Wang was awarded by the State Council of China the honor of the specialist entitled to the Governmental Special Allowance in June 2000. Mr. Wang was also been awarded the title of National Labor Model in 2005, the honor of Outstanding Communist Party Member of Chongqing in 2006, the honor of Sinochem Labor Model in 2007, and the First Group of Sinochem Senior Specialists in 2008. Mr. Wang joined Sinochem Fertilizer Company Limited in December 2010 and was promoted to the present position in January 2011.

Mr. FENG Ming Wei – Deputy General Manager

Mr. FENG Ming Wei, aged 49, is the Deputy General Manager of the Company. Mr. Feng graduated from Beijing University of Iron and Steel Technology specializing in automation in 1987 and acquired the Master degree equivalent to research studies in international economic from Renmin University of China in July 1999. In 1984, he joined Sinochem Group, in which he had held positions in finance department and Sinochem representative office in Pakistan. He was further promoted to be 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 Limited in December 2001, and he had held the positions of deputy general manager of Import department, general manager of fertilizer department No.1, and assistant to general manager of the Company. Mr. Feng was promoted to the present position in May 2007.

Mr. LI Yang Jing – Deputy General Manager

Mr. LI Yang Jing, aged 39, is the Deputy General Manager of the Company. Mr. Li graduated from Shenyang Institute of Chemical Technology in 1995 with a bachelor's degree of Engineering, and acquired Master's degree in business administration in China Europe International Business School (CEIBS) in 2008. Mr. Li joined Sinochem Group in 1995 and had served as the general manager of the first Investment Management section, Property Management Department in China Chemical Import and Export Corporation, the general manager of Hainan Pacific Ocean Petroleum Industry Company Ltd., the chief of Southwest Office of Sinochem Group, the general manager of Investment Department and the general manager of Engineering Management Department of Sinochem Group. Mr. Li joined the Company in November 2010 and was promoted to the present position since then.

Mr. WANG Tie Lin – Deputy General Manager

Mr. WANG Tie Lin, aged 44, is the Deputy General Manager of the Company. Mr. Wang graduated from Faculty of Mechanical Engineering of Tsinghua University with a Bachelor's degree in 1990, and a Master's degree in mechanical engineering in 1994. Mr. Wang joined China Industrial Machinery Import and Export Corp in 1994, and joined Lion Fund Management Co., Ltd, of which Sinochem Group is a shareholder, in 2003. Mr. Wang joined the Company as Deputy General Manager in May 2006 and served concurrently as Director of Human Resources in August 2009.

Mr. GAO Jian – Chief Financial Officer

Mr. GAO Jian, aged 41, is the Chief Financial Officer of the Company. Mr. Gao graduated from Chongqing Institute of Industrial Management in 1993 with a Bachelor's degree. Mr. Gao obtained an on-job Master's degree in Business Administration from Renmin University of China in 2002. Mr. Gao has extensive experience in accounting, financial management and corporate finance. He worked in Wuzhou Engineering Design and Research Institute from 1993 to 1999 and had served successively in the Investment Department and Finance Department of China National Chemicals Import and Export Corporation from 1999 to 2002. From 2002 to 2006, Mr. Gao worked in the Accounting Management Department of Sinochem Group. From August 2006 to August 2007, Mr. Gao acted as the Deputy General Manager of the Finance Department in Qinghai Salt Lake Industry Group Co., Ltd. From August 2007 to June 2008, Mr. Gao served as the Deputy Director (a temporary position) in the Working Bureau of Supervisory Panel of the State-owned Assets Supervision and Administration Commission of the State Council. Prior to his appointment as the Chief Financial Officer of the Company in July 2011, Mr. Gao served as the chief financial officer in Sinochem Lantian Co., Ltd.

Mr. LV Wen – Deputy General Manager

Mr. LV Wen, aged 37, is the Deputy General Manager of the Company. Mr. Lv graduated from Ocean University of Qingdao in 1998 with a Bachelor's degree in international trade, and joined Technology Service Center in Yantai Agricultural Production Means Company in the same year. Mr. Lv joined Sinochem Fertilizer Company Limited in December 2000, and served several positions such as manager of the branch of Sinochem Fertilizer Company Limited, and manager of Business Department. Mr. Lv was appointed as Assistant General Manager of the Sinochem Fertilizer Company Limited in September 2009 and was promoted to the present position in November 2010.

CORPORATE GOVERNANCE REPORT

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited 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"), which will be amended and renamed as Corporate Governance Code (the "Corporate Governance Code") with effect from 1 April 2012.

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, established Nomination Committee in accordance with the recommended best practices contained in the Code on Corporate Governance Practices, established Corporate Governance Committee on 22 March 2012 with regard to the amendments to the Code on Corporate Governance Practices which will become effective on 1 April 2012, and has determined the terms of reference of the committees in accordance with the relevant code provisions.

For the year ended 31 December 2011 and up to the date of this report, the Company has complied with the code provisions in the Code on Corporate Governance Practices, and its amendments from time to time, except for a deviation from the code provision E.1.2 as described below.

The code provision E.1.2 of the Code on Corporate Governance Practices provides that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. In the annual general meeting of the Company held on 16 June 2011 ("2011 AGM"), Mr. Liu De Shu, Chairman of the Board, did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2011 AGM, the Chairman of the Board authorized and the Directors attended the meeting elected Mr. Feng Zhi Bin, the Executive Director and Chief Executive Officer of the Company, to chair the meeting on behalf of the Chairman of the Board. Respective chairmen of the audit, remuneration and nomination committees of the Company were present at the 2011 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2 of the Code on Corporate Governance Practices.

Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (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 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 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 nine members. Among them, two are Executive Directors, four are Non-executive Directors and three are Independent Non-executive Directors. The biographical details of the Directors are set out on pages 36 to 39 of this annual report.

On 16 June 2011, Mr. Wade Fetzer III retired and Ms. Xiang Dandan was appointed by the Board as a Non-executive Director of the Company.

Executive Directors:

All of the Executive Directors possess the qualification and experiences in their respective areas of responsibility, have extensive experience in corporate management and operations, and have good knowledge on the operations and structure of the Group. Under the leadership of the Chairman of the Board, the Executive Directors are able to maintain the effective management of the Group's business.

Non-executive Directors:

The four Non-executive Directors of the Company are experienced and professionals in relevant business of the Group, who provide 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 safeguard 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 in accordance with Rule 3.13 of the Listing Rules, and believed that their independence satisfied the guidelines as stipulated in the Listing Rules up to the date of this report.

For the year ended 31 December 2011, Mr. Liu De Shu and Mr. Yang Lin each held directorships or other positions in Sinochem Group (the ultimate controlling shareholder of the Company), its subsidiaries and/or its associated companies; Mr. Harry Yang is a director of US Agri-Chemicals Corporation, a member company of Sinochem Group whose business ceased operation in November 2005.

In addition, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan, the Company's Non-executive Directors, are nominated by Potash Corporation of Saskatchewan Inc. ("PotashCorp"), the second largest shareholder of the Company, to the Board of the Company. Dr. Stephen Francis Dowdle and Ms. Xiang Dandan also hold senior positions in PotashCorp and/or its subsidiaries.

Other than as described above, there is no other relationship among the members of the Board 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 or three 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 by 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.

Ms. Xiang Dandan was appointed by the Board as Non-executive Director of the Company on 16 June 2011 to fill the then casual vacancy. Ms. Xiang Dandan was subsequently appointed as Non-executive Director by shareholders at the annual general meeting of the Company held on the same date. Currently, the term of appointment of Ms. Xiang Dandan as Non-executive Director of the Company is three years from 16 June 2011, subject to retirement and re-election in accordance with the relevant provisions as set out in the bye-laws of the Company.

Division of the Responsibilities between the Board of Directors and the Management

The Board of Directors is responsible for reviewing and approving of the Company's strategy management, financial management, investment management, asset disposal and other matters, implementation of the resolutions passed in the general meetings and supervision on the management team; and the management team under the Chief Executive Officer is responsible for formulating the strategic plan and operation goals of the Company, compiling and executing the annual budget and setting out annual investment policies, etc.

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. Feng Zhi Bin, 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:

1. to approve and monitor the strategic plans of the Group;

2. to review the financial performance and results of the Group;

3. to review the dividend policy of the Company;

4. to approve and monitor major acquisitions, investment, asset transactions and any other significant expenditures of the Group; and

5. to supervise internal risk management policy of the Group.

The Board is also 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 2011, the Board have:

1. approved the adoption of the applicable Hong Kong Financial Reporting Standards;

2. selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;

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

4. 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 2011, the Board held a total of four meetings to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, investment projects, change of Directors, and other significant matters. The Board had also approved certain proposals by circulation of written resolutions during the year. The attendance rates of the Chairman, Mr. Liu De Shu, and other members of the Board were as follows:

		Attendance rate
Executive Directors		
Mr. Feng Zhi Bin *(Chief Executive Officer)*		4/4
Mr. Harry Yang		4/4
Non-executive Directors		
Mr. Liu De Shu *(Chairman)*		3/4
Mr. Yang Lin		4/4
Dr. Stephen Francis Dowdle		4/4
Ms. Xiang Dandan	(appointed on 16 June 2011)	2/2 *(Note)*
Mr. Wade Fetzer III	(retired on 16 June 2011)	2/2 *(Note)*
Independent Non-executive Directors		
Mr. Ko Ming Tung, Edward		4/4
Dr. Tang Tin Sek		4/4
Mr. Tse Hau Yin, Aloysius		4/4

Note: Mr. Wade Fetzer III only attended the Board meetings held on or before the date of his retirement on 16 June 2011, while Ms. Xiang Dandan only attended the Board meetings held after the date of her appointment on 16 June 2011.

Audit Committee

An audit committee was established by the Board in 1999 (the "Audit Committee") with its written 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, which are revised in accordance with the latest amendments to the Code on Corporate Governance Practices become effective on 1 April 2012, are available on the Company's website.

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

1. to make recommendations to the Board on the appointment, re-appointment and removal of the external auditor, to approve the remuneration and terms of engagement of external auditor, and handle any issues regarding its resignation or dismissal;

2. to review and monitor the independence and objectiveness of the external auditor and the effectiveness of audit procedures in accordance with the applicable standards;

3. to develop and implement policy on engaging an external auditor to supply non-audit services;

4. 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 judgements contained therein;

5. to review the financial controls, internal control and risk management systems of the Group;

6. to discuss the internal control system with management to ensure that the management has performed its duty to maintain an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function,;

7. to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

8. to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness;

9. to review the financial and accounting policies and practices of the Group;

10. to review the external auditor's management letters, and any material queries raised by the external auditor to the management about accounting records, financial accounts or internal control system and management's response; and

11. to ensure that the Board provides timely response to the issues raised in the external auditor's management letters.

The Audit Committee met four times during the year ended 31 December 2011. 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:

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

2. reviewed and discussed significant issues identified in the preparation of the consolidated financial statements;

3. reviewed the independence of the external auditor, considered and made recommendation to the Board on the engagement of external auditors and the corresponding audit fee for the year ended 31 December 2011;

4. discussed the audit plan, scope and responsibility before the commencement of work by the external auditor;

5. reviewed the results of routine audit of the Company by the National Audit Office of the People's Republic of China, and the improvement plan of the Company;

6. reviewed the terms of reference of the Audit Committee with reference to the amendments to the Code on Corporate Governance Practices become effective on 1 April 2012;

7. reviewed and commented on the Company's corporate governance practices and the Group's financial control (including the adequacy of resources, staff's qualifications and experience in the Group's accounting and financial reporting functions), internal control and risk management systems and made sufficient communication with the management on related matters;

8. discussed the Group's internal audit plan and audit work in respect of information technology systems with the Internal Audit Department;

9. met with the external auditor without the management's participation; and

10. reviewed the continuing connected transactions conducted in 2011.

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 Mr. Harry Yang. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director and Mr. Harry Yang who is an Executive Director, the remaining three members are all Independent Non-executive Directors.

The terms of reference of the Remuneration Committee, which are revised in accordance with the latest amendments to the Code on Corporate Governance Practices become effective on 1 April 2012, are available on the Company's website. The revised terms of reference of the Remuneration Committee are summarized as follows:

1. to make recommendations to the Board on the policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the Executive Directors' and senior management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board;

3. to determine, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management, including benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment), and to make recommendations to the Board on the remuneration of Non-executive Directors;

4. to review and approve the compensation payable to Executive Directors and senior management for any loss or termination of office or appointment or the compensation arrangements for the dismissal or removal of Directors for misconduct; and

5. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

The Remuneration Committee met twice during the year ended 31 December 2011. 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 meetings were as follows:

	Attendance rate
Independent Non-executive Directors	
Dr. Tang Tin Sek *(Chairman)*	2/2
Mr. Ko Ming Tung, Edward	2/2
Mr. Tse Hau Yin, Aloysius	2/2
Non-executive Director	
Dr. Stephen Francis Dowdle	2/2
Executive Director	
Mr. Harry Yang	2/2

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

1. approved the proposal on performance bonus for Executive Directors and senior management for the year 2010;

2. approved the remuneration package (including cash compensation and bonus scheme) of Executive Directors and senior management for the year 2011;

3. made recommendation to the Board in respect of the compensation proposal for Non-executive Directors and Independent Non-executive Directors for the year 2011;

4. approved the medium-term incentive plan for Executive Directors and senior management of the Company;

5. approved the remuneration package (including cash compensation, bonus scheme and medium-term incentives) of the newly appointed senior management;

6. approved the adjustment of remuneration package (including base pay, cash compensation and medium-term incentive units) of a senior management; and

7. approved the re-appointment of remuneration consultant.

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 a 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 determined based on the results of the Group and share options granted under the share option schemes of the Company. The Remuneration Committee performs regular review on the emoluments of the Directors. No Director, or any of his associates and executives, 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 2011, the Group had about 10,170 full-time employees (including those employed by controlled entities), and their remuneration is 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 value the importance of training and development of employees. In 2011, the Group provided 26,380 hours of training in aggregate for about 3,600 person-times, any training organized by the subsidiaries have not been included in these numbers. The training courses covered areas such as industry development, leadership enhancement, marketing management, operation and management, laws and regulations, lean management, project management, finance, logistics, human resource management, information technology, safe production and general working skills. 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 to the Group's rapid developments; hence, improving 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 five 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, Dr. Stephen Francis Dowdle and Mr. Harry Yang. Except for Dr. Stephen Francis Dowdle who is a Non-executive Director and Mr. Harry Yang who is an Executive Director, the remaining three members are all Independent Non-executive Directors.

The terms of reference of the Nomination Committee, which are revised in accordance with the latest amendments to the Code on Corporate Governance Practices become effective on 1 April 2012, are available on the Company's website. The revised terms of reference of the Nomination Committee are summarized as follows:

1. to formulate nomination policy for the Board's consideration and implement the Board's approved nomination policy;

2. to determine the criteria to select and recommend candidates for directorship;

3. to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and to make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

4. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

5. to assess the independence of Independent Non-executive Directors; and

6. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive.

The Nomination Committee met once during the year ended 31 December 2011. The Nomination Committee had also passed a proposal by circulation of written resolutions during the year, and had presented the relevant proposal to the Board for review or approval, where applicable, in subsequent board meeting. The attendance rate of each of the committee members at the aforesaid meetings 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
Executive Director	
Mr. Harry Yang	1/1

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

1. reviewed the structure, size and composition of the Board and made suggestions to the Board;

2. reviewed the terms of appointment of Directors and made recommendations to the Board;

3. nominated the Directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting;

4. reviewed the independence of Independent Non-executive Directors and made suggestions to the Board; and

5. reviewed the background and qualifications of Ms. Xiang Dandan and recommended to the Board on the appointment of Ms. Xiang Dandan as a Non-executive Director as replacement for Mr. Wade Fetzer III upon his retirement.

Corporate Governance Committee

A corporate governance committee was established by the Board on 22 March 2012 (the "Corporate Governance Committee") with its written terms of reference. The Corporate Governance Committee currently comprises four members. The Chairman of the Corporate Governance Committee is Mr. Feng Zhi Bin (Executive Director and Chief Executive Officer) and the other members are Mr. Harry Yang (Executive Director), Ms. Zhang Xiao Qian (Head of Legal Department) and Ms. Cheung Kar Mun, Cindy (Company Secretary).

The terms of reference of the Corporate Governance Committee, which are available on the Company's website, are summarized as follows:

1. to develop and review corporate governance ("CG") principles and policies of the Company and make recommendations to the Board, and implement the CG policies laid down by the Board;

2. to review and monitor the CG policies and practices to ensure compliance with legal and regulatory requirements;

3. to develop, review and monitor the code of conduct and guidelines in relation to CG matters applicable to the Company's Directors and employees;

4. to review the Company's compliance with the Corporate Governance Code and related rules;

5. to prepare the annual CG Report for the Board's consideration and approval for disclosure;

6. to review regularly the contribution required from Directors to perform their responsibilities to the Company, and the time commitments;

7. to develop, review and monitor the implementation of the shareholders communication policy to ensure its effectiveness, and make recommendations to the Board where appropriate to enhance shareholder relationship with the Company; and

8. to review and monitor the training and continuous professional development of the Directors and senior management.

The Corporate Governance Committee shall meet at least once a year. Their work to be performed subsequent to its establishment will be disclosed in the next annual report.

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. During the year, the Audit Committee has considered and approved the engagement of Deloitte Touche Tohmatsu as auditors of the Group for the year ended 31 December 2011 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 2011 were as follows:

	For the year ended 31 December	
	2011	2010
Nature of services	***RMB'000***	*RMB'000*
Audit service (including audit of financial statements and other audit related projects)	**4,756**	4,812
Tax related service	**109**	240
Total	**4,865**	5,052

Financial Management

As an important part of corporate governance, the Group has been putting focus on the continuous improvement in financial management. In 2011, the Group's main efforts in financial management included: works that focused on enhancing the guiding role of performance evaluation system, paying attention to the management of assets, intensifying the support for merger and acquisition, strengthening the management of liquid capital, fending off the capital fund risk, promoting the optimization of debt structure, and reducing the cost of capital, all of which worked towards the Company's strategy; through integrated management and personalized training, the Company improved the overall qualification and working skills of accounting team, and perfected the formation of talents of different levels. The steady progress of these efforts brought a more solid foundation of financial management and better management skills in the Group, and it better served the Group's strategic progress and business expansion.

In 2011, in terms of performance evaluation, the Group implemented stronger supervision and control on operation process, enhanced the guiding direction of high performance, specified the budget management and performance evaluation of production enterprises and distribution network, and pushed management towards subordinate plants and subsidiaries it has controlling stakes in, further exerting the supervision, control and guiding role of performance evaluation.

In 2011, the Group paid more attention to the solidification of its assets, regularly monitored the value of assets, and prompted the improvement of the management performance of production enterprises' assets; meanwhile, combined with the Company's development strategy, the Company introduced professional talents, improved professional competency, and enhanced the professional service quality to merger and acquisition.

In the context of relatively tight domestic liquidity in 2011, the Group, by using its advantage of integrated management of domestic and overseas, downstream and upstream funds, grasped the changing trend of exchange and interest rates in different financial markets, made use of US dollar finance and trading finance channels by combining the relatively sufficient liquidity in overseas financial market and cost advantage, ensuring the needs for funds by business operation and strategic investment while reducing general fund cost. At the same time, the Group reduced the overall size of debt significantly through strengthened liquidity management. The Group also worked with financial institutions such as Agricultural Bank of China, China Post Savings Deposit Bank, and China UnionPay which have extensive influences in field of "Sannong" (countryside, agriculture and farmer), to further improve the fund settlement system at grass-root level, and provide value added service including assistance in financing for customers under the precondition of risk control, which promoted the development of the sales of the Company. In 2011, the Group focused its efforts on personnel job shift, training, and introduction of excellent talents, in order to deepen the integrated management of financial personnel, enhance all financial personnel's recognition of the corporate philosophy, and improve the execution capacity. Moreover, echelon building and team quality were further improved.

Internal Control

The Board of Directors understands that, in accordance with the code provision C.2 of the Code on Corporate Governance Practices contained in the Listing Rules, it is liable for ensuring the Group's internal control and risk management system to be robust, appropriate and effective, and for reviewing on a regular basis in order to ensure shareholders' interests and the Group's assets safety. During the year, the Group had an annual review of its internal control and risk management system by applying as standards the Basic Code of Corporate Internal Control and its accompanying guidelines jointly issued by the National Audit Office of P.R.C., Ministry of Finance, China Securities Regulatory Commission, China Banking Regulatory Commission, and China Insurance Regulatory Commission ("five domestic commissions"), while complying with the Listing Rules and the Internal Control Framework of US Committee of Sponsoring Organizations (COSO). The review covered all significant aspects of supervision/control, including financial, operational, compliance, and risk management functions.

Internal control and risk management efforts

During the year, the deep influence of the international financial crisis had not been dispelled completely. World economy has not been in a virtuous cycle of steady growth, with systematic and structural risks still obviously seen. There was an increasingly clear trend towards global integration of international fertilizer industry. The oversupply situation in domestic fertilizer market would continue in a long period of time. The Group's internal control and risk management system face more severe testing.

Under the severe operational situation, the Group's management reviewed the risk strategy in a systematic manner, adopting active risk countermeasures: in respect of resource development, making greater efforts to resource access to provide resource support for the Group's sustainable development; in respect of production subsidiaries management, promoting energy saving and energy consumption reduction, economic responsibility system, technological advancement, new product R&D, and integration of compound fertilizer companies in order to sharpen the competitive edge; in respect of marketing service, promoting professional management in headquarters product purchase and customer service, changing the operation and management mechanism of distribution network for a higher level of marketing service.

For years, the Group has been engaged in improving the internal control and risk management system. Good corporate governance structure has been the footstone of internal control and risk management system. While complying with relevant laws and rules in the jurisdiction where it was listed as well as international leading internal control standards, the Group also pays attention to the rules and regulations issued by domestic regulators, and conducts self-reviews on a regular basis. During the year, the Group carried out comprehensive review of the design and effectiveness of execution of such control elements of internal control environment, risk assessment, control activities, information and communication, and internal control by applying the standards of Internal Control Framework of COSO, and Internal Control and Risk Management – A Basic Framework published by Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the Basic Code of Corporate Internal Control and its accompanying guidelines from five domestic commissions. It also summarized the internal control evaluation process, internal control defect identification and improvement measures, conclusion for effectiveness of internal control and other relevant matters. During the year, focus was put on more trainings and more frequent field audit in order to improve the overall level of internal control within the Group.

To continuously improve the internal control and risk management system building and practical effect, the Group revised the short- and long-term plans for internal control and risk management building in a roll-over manner on an annual basis, ensuring goals setting, implementation activities, job arrangement and staffing for the Group's internal control and risk management, and specifying the development direction of internal control and risk management. During the year, the Group established the leadership team and work team for internal control and risk management system evaluation. The leadership team is responsible for directing the evaluation work as a whole; while the work team is responsible for concrete organization and coordination. There's available coordination mechanism and long-effective mechanism for internal control and risk management evaluation, which has express division of work, smooth operation, and strong cooperation. During the year, each of the internal control elements and their key risk and control points was reviewed through a combination of self-evaluation, field training and audit, with extensive participation by the headquarters, distribution network, production subsidiaries and overseas offices.

1. Control environment: After many years of evolution, the Group has established a regulated governance structure, a clear development strategy, a sound and enterprising corporate culture and human resources management mechanism, and has performed social responsibilities proactively in order to lay a solid foundation for the establishment of the Group's internal control and risk management system.

2. Risk evaluation: The Group promotes risk management proactively, and improves its efforts in risk management system and major risk control constantly starting from building key elements of risk management system and management of major risks.

3. Control activities: The Group develops relevant control measures in response to corporate internal environment and risk evaluation results, focuses on internal supervision, and effectively ensures that control methods and measures are implemented efficiently.

4. Information and communication: The Group has well-established internal and external information channels, IT system and anti-malpractice mechanism, which plays an active driving role in ensuring safe and smooth operation and management.

5. Internal supervision: The Group improves its corporate operation and management systems constantly and develops a multi-level internal supervision system in line with relevant requirements in the Listing Rules of the Stock Exchange and international prevailing Internal Control Framework of COSO. Through years of evolution, there has been a set of organization guarantee and work system meeting internal audit standards.

After the above-mentioned all-sided and systematic self-evaluation, the Group considers that, during the year, the internal control and risk management system played a basically effective guarantee role in promoting the Group's integrated strategy of production, supply and marketing, and achieving the current-period operating performance. By comparing with the Internal Control Framework of COSO, and Internal Control and Risk Management – A Basic Framework published by HKICPA, and the Basic Code of Corporate Internal Control and its accompanying guidelines from five domestic commissions, the Group had a clear direction for improvement in internal control, which played an active role in pushing the Group's internal control and risk management system to better respond to changes in domestic and foreign operating environments and effectively support and serve the Group's strategic transformation.

Internal Control System Building

The Group has an independent internal audit department, which is highly independent and authoritative within the Group. Not subject to restrictions, and following the risk-oriented audit concept, this department takes the most of systematic and regulated audit procedures and methods to audit all of the Group's operating activities independently, objectively, comprehensively and continuously, evaluates the quality of corporate governance, risk management and internal control of the Group, and carries out particular reviews on areas attracting key concerns of the management or the Audit Committee of the Group.

During the year, the Group intensified its discipline inspection and supervision capability, improved its internal control system, adhered to the principle of giving equal priority to penalty and prevention, and eliminated corruption within the Group from the origin. The Group pays attention to carrying forward morality of integrity and good faith, and promoting honest culture building to set up a firm moral line of defence for the smooth implementation of strategic transformation.

Investor Relation and Information Disclosure

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

The Group attaches great emphasis on investor's relationship work, for which the senior management of the Company is directly responsible for maintaining close contact with the investors via multiple channels. All these works were arranged in strict compliance with the Listing Rules and the "Rules Governing the Management of Information Disclosure" of the Company.

In 2011, the work related to investor relations of the Company mainly consisted of the following:

1. In March 2011, the Company announced its 2010 annual results, held press conference and analysts meeting, and conducted road-shows in subsequent dates which involved communications with investors from various countries.

2. In August 2011, the Company announced its 2011 interim results, held press conference and analysts meeting.

Besides results announcement and road-shows, the Group participated in several investor conferences organized by investment banks. In order to keep close contacts and effective communications with investment and analysis institutions, such as fund managers and analysts, communications including one-on-one or small-group meetings and telephone conference were conducted in daily business. The Company had conducted as many as 240 visits or communications with the investment and analysis institutions through different means in 2011.

In addition, the Group disclosed corporate information through the Stock Exchange and the Company's websites timely with strict compliance with the Listing Rules and the "Rules Governing the Management of Information Disclosure" of the Company, delivering important announcements to all shareholders. The Company also updated the website continuously to disclose basic information of the Group.

Health, Safety and Environmental Protection

In 2011, the Group continued to adhere to the working guideline of "safety first, prevention first, and comprehensive control", implemented seriously the national regulations and requirements concerning safety input, training and education, supervision and inspection, achieved the planned goals of no major and severe than major production accidents, light injury rate less than 3%, no level-IV environment events, no accidents of occupational disease hazards, and the like. The Group kept an overall stable situation in health, safety and environmental protection (HSE).

This year, on the basis of carrying through the safe production, energy saving and emission reduction responsibilities of all levels of organizations, the Group initiated the campaign of safe production month, HSE system building, operation safety analysis, event of "fighting against three kinds or violation, striving to be a company with no accident", implementing safety risk deposit system in production subsidiaries, and many other initiatives. There have been monthly routine conferences on safe production, and quarterly routine company HSE video conference systems to improve the corporate HSE management skill fully. The Group collated and revised the corporate HSE management system, revised and issued the HSE System Manual. To enhance the emergency management, emergency plans were revised and assessed across the Group. The Group supervised and directed its companies to have rehearsals of emergency response. The Group continued to increase investment in occupational health, safe production and environmental protection in subsidiary companies in order to improve their material safety level. Greater efforts had been made to HSE training. Video conferences of safe production were convoked to identify and eliminate hidden accidents, and rectify safety defects to improve all employees' safety management awareness.

DIRECTORS' REPORT

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 2011.

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 5 to the consolidated financial statements.

Results and Appropriations

The results of the Group for the year are set out in the consolidated statement of comprehensive income on page 82 of the annual report.

The Board recommended the payment of a final dividend of HK$0.0166 (equivalent to approximately RMB0.0135) per share for the year ended 31 December 2011 (2010: HK$0.0110, equivalent to approximately RMB0.0094, per share) to the shareholders, estimated to be HK$116,577,000 (equivalent to approximately RMB94,657,000), 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 168 of the annual report.

Major Customers and Suppliers

The aggregate turnover attributable to the Group's five largest customers were less than 30% of the Group's total turnover for the year 2011. The aggregate purchase attributable to the Group's five largest suppliers represented around 28% of the Group's total purchases for the year 2011, with the single largest supplier contributing to 13% of the Group's total purchases for the year. A substantial shareholder of the Company, Potash Corporation of Saskatchewan Inc., holds one-third equity interest in the largest supplier of the Group.

Save for the above, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% equity interest of the Company), had any interest in any of the Group's five largest customers or suppliers.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group for the year are set out in Note 15 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 31 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 85 to 86 of the annual report.

Distributable Reserves of the Company

As at 31 December 2011, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to HK$139,446,000 (equivalent to approximately RMB113,049,000) (2010: HK$77,230,000, equivalent to approximately RMB65,715,000).

Donations

During the year ended 31 December 2011, the Group had made approximately RMB1,147,000 charitable donations in cash.

Directors

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

Executive Directors

Mr. Feng Zhi Bin *(Chief Executive Officer)*
Mr. Harry Yang

Non-Executive Directors

Mr. Liu De Shu *(Chairman)*
Mr. Yang Lin
Dr. Stephen Francis Dowdle
Ms. Xiang Dandan (appointed on 16 June 2011)
Mr. Wade Fetzer III (retired on 16 June 2011)

Independent Non-Executive Directors

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

In accordance with the bye-laws of the Company, Mr. Liu De Shu, Mr. Yang Lin, Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

Save as disclosed in the section of "Directors' Service Contracts", 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 by the Group 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 36 to 41 of the annual report.

Disclosure of Information of Directors

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes/update of information of Directors are as follows:

As determined by the Remuneration Committee in a meeting of the Remuneration Committee held on 21 March 2012, Mr. Feng Zhi Bin, the Executive Director and Chief Executive Officer of the Company, and Mr. Harry Yang, an Executive Director of the Company, were entitled to the performance bonus payment of RMB2,726,692 and RMB1,941,420, respectively, determined with reference to the operating results of the Group and their respective individual performance in 2011. For information in relation to the emoluments of the Directors of the Company in 2011, please refer to Note 11 of the consolidated financial statements.

Directors' Service Contracts

On 28 July 2011, Mr. Feng Zhi Bin, 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 three years, up to 27 July 2014. 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. Feng Zhi Bin or Mr. Harry Yang prior to its expiry, Mr. Feng Zhi Bin or Mr. Harry Yang will be entitled to receive a cash compensation equivalent to 11 months of his annual director's salary, save for the circumstances described in item (ii) above.

On 22 March 2012, the Company has issued formal letters of appointment for all Non-executive Directors (including Independent Non-executive Directors) of the Company, setting out key terms and conditions of their appointment, in compliance with the code provision D.1.4 set out in the Corporate Governance Code becomes effective on 1 April 2012.

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 2011, 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:

1. Ordinary shares of HK$0.1 each of the Company

As at 31 December 2011, a Director of the Company had long position in the shares of the Company as follows:

Name of Director	Capacity	Number of issued shares held
Harry Yang	Beneficial owner	600

2. Share options of the Company

The Company has adopted share option schemes to provide incentives to directors, eligible employees and other eligible participants. 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. No share options under the Old Share Option Scheme can be granted after the adoption of the New Share Option Scheme.

i. Particulars of the share option schemes of the Company are set out in note 33 to the consolidated financial statements.

ii. As at 31 December 2011, 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	211,900	211,900
Harry Yang	Beneficial owner	210,600	210,600

iii. The movements in the Company's share options granted to Directors, employees and other eligible participants under both the Old Share Option Scheme and the New Share Option Scheme during the year ended 31 December 2011 were as follows:

Old Share Option Scheme

				Number of share options			
Grantees	**Date of grant**	**Exercisable period** *(Note 1)*	**Exercise price** *HK$*	**Outstanding at 1 January 2011**	**Exercised during the year** *(Note 2)*	**Lapsed during the year**	**Outstanding at 31 December 2011**
Directors							
Liu De Shu	23 January 2006	23 January 2008 – 22 January 2012	1.672	1,900	–	–	1,900
Harry Yang	23 January 2006	23 January 2008 – 22 January 2012	1.672	600	–	–	600
Employees							
Employees	23 January 2006	23 January 2008 – 22 January 2012	1.672	3,178,400	(1,073,400)	(2,000)	2,103,000
Other eligible participant							
Former director *(Note 4)*	23 January 2006	23 January 2008 – 22 January 2012	1.672	609,900	(609,900)	–	–
				3,790,800	(1,683,300)	(2,000)	2,105,500

Note 1: Two-thirds of the total number of share options granted to each director, employee and eligible participant on 23 January 2006 were exercisable on or after 23 January 2008 and the remaining balance of share options granted were exercisable on or after 23 January 2009. All unexercised share options were expired on 23 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$3.12.

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

Note 4: Former director Mr. Du Ke Ping resigned as a director of the Company effective on 15 July 2010.

New Share Option Scheme

Grantees	Date of grant	Exercisable period *(Note 5)*	Exercise price HK$	Number of share options: Outstanding at 1 January 2011	Lapsed during the year	Outstanding at 31 December 2011
Directors						
Liu De Shu	28 August 2007	28 August 2009 – 27 August 2013	4.990	210,000	–	210,000
Harry Yang	28 August 2007	28 August 2009 – 27 August 2013	4.990	210,000	–	210,000
Wade Fetzer III *(Note 7)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	128,000	(128,000)	–
Employees						
Employees	28 August 2007	28 August 2009 – 27 August 2013	4.990	2,214,728	(442,000)	1,772,728
Other eligible participants						
Former directors *(Note 8)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	338,000	–	338,000
				3,100,728	(570,000)	2,530,728

Note 5: The exercisable period of the share options granted to each director, employee and eligible participant can be analyzed as:

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

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

(iii) a further 25% of the share options granted are exercisable on or after 28 August 2010, and the remaining 25% of the share options granted are exercisable on or after 28 August 2011, provided that the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ended 31 December 2009 was more than HK$0.674. Since the total accumulated basic earnings per share of the Company for the three consecutive fiscal years ended 31 December 2009 was less than HK$0.674, 50% of the share options granted had been forfeited on 28 August 2010.

All unexercised share options will expire on 28 August 2013.

Note 6: No share options under the New Share Option Scheme were granted, exercised or cancelled during the year.

Note 7: Mr. Wade Fetzer III retired as Non-executive Director of the Company effective on 16 June 2011. His relevant share options were lapsed according to the terms of the New Share Option Scheme during the year.

Note 8: Former directors are Mr. Song Yu Qing and Mr. Du Ke Ping, who resigned as directors of the Company effective on 16 November 2009 and 15 July 2010 respectively.

Save as disclosed above, as at 31 December 2011, 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 the 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 2011, 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 position	Percentage of the issued share capital of the Company
Sinochem Group *(Note 1)*	3,698,660,874	52.67%
Sinochem Corporation *(Note 1)*	3,698,660,874	52.67%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") *(Note 2)*	3,698,660,874	52.67%
Potash Corporation of Saskatchewan Inc. ("PotashCorp") *(Note 3)*	1,563,312,141	22.26%

Note 1: Sinochem HK is the wholly-owned subsidiary of Sinochem Corporation (中國中化股份有限公司). Sinochem Corporation is the 98% owned subsidiary of Sinochem Group (中國中化集團公司). Accordingly, Sinochem Group and Sinochem Corporation are deemed to be interested in 3,698,660,874 ordinary shares of the Company, being corporate interest beneficially held by Sinochem HK.

Note 2: Sinochem HK was beneficially interested in 3,698,660,874 ordinary shares of the Company.

Note 3: 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 2011.

Directors' Interests in Contracts of Significance

Save as disclosed herein, 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, were 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 2011, Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, was a director of US Agri-Chemicals Corporation, which is a wholly-owned subsidiary of Sinochem Group and was engaged in the production of fertilizer prior to its cessation of business in November 2005. Although US Agri-Chemicals Corporation still maintained its company registration with the relevant authorities in the United States, it had ceased its operation and accordingly, there is no competing business with the Group. Save for Mr. Harry Yang, none of the directors of US Agri-Chemicals Corporation held any positions or assumed any role in the Group during the year.

In addition, during the year ended 31 December 2011, Dr. Stephen Francis Dowdle, Non-executive Director of the Company, was a director of Canpotex Limited ("Canpotex"), a Canadian corporation equally owned by PotashCorp (a substantial shareholder of the Company) and two other potash producers. Canpotex is principally engaged in offshore marketing of potash products for its three owners and is currently one of the major suppliers of fertilizer products to the Group. Since the Group and Canpotex currently focus on different sales regions, the Company believes that there is no competition between the Group and Canpotex. Save for Dr. Stephen Francis Dowdle, none of the directors of Canpotex 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 included in this section shall have the same meaning assigned to them in the respective announcements or circulars.

References to Listing Rules made under each continuing connected transaction disclosed in this section refer to the then Listing Rules implemented on the relevant date of disclosure.

For the year ended 31 December 2011, the Group had conducted the following continuing connected transactions, which are subject to reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The following disclosures in respect of the continuing connected transactions complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

1. Continuing Connected Transactions in 2011

(1) Purchase of Canadian Potash by Sinochem Macao from Canpotex International Pte. Limited under the MOU

On 20 October 2010, Sinochem Macao, an indirectly wholly-owned subsidiary of the Company, entered into an MOU with Canpotex, an associate of Potash. As Potash is a substantial shareholder and a connected person of the Company, Canpotex is a connected person of the Company by virtue of being an associate of Potash. Accordingly, the continuing transactions contemplated under the MOU between Sinochem Macao and Canpotex constitute continuing connected transactions for the Company under the Listing Rules.

Under the MOU, Sinochem Macao and Canpotex agree to enter into transactions for a term of three years from 1 January 2011 to 31 December 2013 for the supply of Canadian Potash by Canpotex to Sinochem Macao. Pursuant to the MOU, Canpotex agreed to supply and Sinochem Macao agreed to purchase Canadian Potash from Canpotex on an exclusive basis and Canpotex will not sell such potash to any other buyers in the PRC other than in the circumstances specified in the MOU.

During the effective period under the MOU, prices for the Canadian potash will be determined through negotiations between the parties with reference to prevailing market condition. Payments for the supplied potash may be settled by way of letter of credit or such other means as may be decided upon by the parties. The annual caps for the transactions contemplated under the MOU are US$600,000,000 (approximately HK$4,660,000,000), US$730,000,000 (approximately HK$5,670,000,000) and US$870,000,000 (approximately HK$6,750,000,000) for the three years ending 31 December 2013, respectively. Such annual caps are determined based on the estimated volume and prices of purchase pursuant to the terms of the MOU, with reference to the transaction volume of potash purchased for the previous years and taking into account the possible increasing demand for potash imports into the PRC for the relevant years.

As the applicable percentage ratios in respect of the MOU are more than 5% and the maximum annual value of the transactions contemplated thereunder is more than HK$10,000,000, the MOU and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval, and annual review requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 20 October 2010 and the circular dated 10 November 2010 published by the Company. The aforesaid continuing connected transactions have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 9 December 2010.

(2) ***Fertilizer Sales Co-operation Framework Agreement between Sinochem Fertilizer, Sinochem Macao and Sinochem Group***

On 22 November 2010, Sinochem Fertilizer, Sinochem Macao and Sinochem Group entered into the Fertilizer Sales Co-operation Framework Agreement, pursuant to which the parties agreed to enter into transactions for the import of fertilizer products into the PRC.

Sinochem Fertilizer and Sinochem Macao are respectively the indirectly wholly-owned subsidiaries of the Company. Sinochem Group holds a 98% equity interest in Sinochem Corporation, which in turn wholly-owns Sinochem HK, which is the substantial shareholder of the Company. Sinochem Group is therefore a connected person of the Company under the Listing Rules and the the transactions under the Fertilizer Sales Co-operation Framework Agreement is therefore a continuing connected transaction under the Listing Rules.

Under the PRC law, the Group is not allowed to import fertilizer product into the PRC (except for small amount trade in border areas as approved under the PRC law) and the right to import fertilizer products is only granted to Sinochem Group and several other importers. Accordingly, Sinochem Group has agreed to provide import service to the Group pursuant to the Fertilizer Sales Co-operation Framework Agreement.

Pursuant to such agreement, fertilizer products sourced from overseas by Sinochem Macao for Sinochem Fertilizer will first be sold to Sinochem Group. Sinochem Group, as an approved importer of fertilizer products in the PRC, will import the products sourced by Sinochem Macao and sell all of such to Sinochem Fertilizer. Sinochem Group will also import a small amount of fertilizer products direct from overseas from time to time. Sinochem Group 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 on an exclusive basis. On the other hand, Sinochem Fertilizer is entitled to purchase fertilizer products from any authorized importers.

Sinochem Fertilizer, Sinochem Macao and Sinochem Group will, in accordance with the provisions and principles stipulated in the Fertilizer Sales Co-operation Framework Agreement, enter into further specific agreements for the fertilizer products to be imported through Sinochem Group.

Under the Fertilizer Sales Co-operation Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties are as follows:

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

(ii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced from overseas by Sinochem Macao is set in accordance with the purchasing price paid by Sinochem Group plus reasonable costs incurred by Sinochem Group in relation to the import of fertilizer products; and

(iii) the price paid by Sinochem Fertilizer to Sinochem Group for fertilizer products sourced by Sinochem Group direct from overseas suppliers is set in accordance with the prevailing domestic wholesale market price.

Payments for the fertilizer products may be settled by way of letter of credit or such other means as may be agreed upon by the Parties.

The annual caps in respect of the continuing connected transaction between Sinochem Macao and Sinochem Group under the Fertilizer Sales Co-operation Framework Agreement for each of the three years ending 31 December 2013 are US$1,370,000,000 (approximately HK$10,626,405,000), US$1,625,200,000 (approximately HK$12,605,864,000) and US$1,939,792,000 (approximately HK$15,045,997,000), respectively.

Such annual caps are calculated based on the projected quantities of purchase by Sinochem Group for Sinochem Fertilizer through the arrangement with Sinochem Macao and the projected average price per tonne of fertilizer products for each of the relevant years (which is set in accordance with the prevailing international market price).

The annual caps in respect of the continuing connected transaction between Sinochem Fertilizer and Sinochem Group under the Fertilizer Sales Co-operation Framework Agreement for each of the three years ending 31 December 2013 are RMB11,657,104,000 (approximately HK$13,598,012,000), RMB14,162,276,000 (approximately HK$16,520,295,000) and RMB17,164,235,000 (approximately HK$20,022,080,000), respectively.

Such annual caps are calculated with reference to:

(i) the projected quantities of sales of fertilizer products sourced from overseas by Sinochem Macao, and the projected average price per tonne of fertilizer products for each of the relevant years (which is set on a cost basis) and the estimated costs incurred by Sinochem Group for the importation of such fertilizer products; and

(ii) the projected quantities of sales of fertilizer products sourced by Sinochem Group direct from overseas suppliers to Sinochem Fertilizer and the projected average price per tonne of fertilizer products for each of the relevant years (which is set in accordance with the prevailing domestic wholesale market price).

As the applicable percentage ratios in respect of the proposed annual caps are more than 5% and the maximum annual values of the transactions contemplated thereunder are more than HK$10,000,000, the Fertilizer Sales Co-operation Framework Agreement and the transactions contemplated thereunder are subject to the reporting, announcement, independent shareholders' approval and annual review requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 22 November 2010 and the circular dated 23 November 2010 published by the Company. The aforesaid continuing connected transactions have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 9 December 2010.

(3) *Agrichemical Sourcing Framework Agreement between Sinochem Fertilizer and Sinochem Group*

On 1 April 2009, Sinochem Fertilizer, a wholly-owned subsidiary of the Company, entered into the Agrichemical Sourcing Framework Agreement with Sinochem Group, the substantial shareholder of the Company. Pursuant to this agreement, Sinochem Fertilizer could source pesticides and other agrichemical products from Sinochem Group and its associates, including but not limited to its Subordinated Enterprises in order to strengthen the fully agricultural input's strategy of the Group and to further realize the network value of the Group.

Prices of pesticides and other agrichemical products provided by Sinochem Group and its associates shall be determined with reference to market prices within the PRC at the time Sinochem Fertilizer submits its purchase plan for pesticides and other agrichemical products.

As disclosed in the announcement dated 16 November 2007, Sinochem Fertilizer has entered into the Agrichemical Sourcing Agreement with Shenyang Research Institute of Chemical Industry ("SRICI"), an indirect wholly-owned subsidiary of Sinochem Group. Since the Agrichemical Sourcing Framework Agreement contemplates similar agrichemical sourcing transactions between Sinochem Fertilizer and SRICI, Sinochem Fertilizer and SRICI agreed that the Agrichemical Sourcing Agreement was therefore amended and be treated as one of the specific agreements under the Agrichemical Sourcing Framework Agreement.

The maximum aggregate annual value in respect of the continuing connected transactions between Sinochem Group and its associates and Sinochem Fertilizer under the Agrichemical Sourcing Framework Agreement (inclusive of the Agrichemical Sourcing Agreement) for each of the three years ended 31 December 2011 is estimated to be RMB50,000,000, RMB100,000,000 and RMB150,000,000, respectively. Such estimates are calculated based on Sinochem Fertilizer's sales plan and projected quantities of sales of pesticides and other agrichemical products.

Given that the relevant applicable percentage ratios set out in the Listing Rules for the transactions contemplated under the Agrichemical Sourcing Framework Agreement is expected to be less than 2.5% on an annual basis, such transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 and 14A.46 of the Listing Rules and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 1 April 2009 published by the Company.

(4) *Sulphur and Other Fertilizer Raw Materials Import Framework Agreement among Sinochem Fertilizer, Dohigh Trading and Sinochem Group*

On 1 April 2009, Sinochem Fertilizer and Dohigh Trading, wholly-owned subsidiaries of the Company, entered into the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement with Sinochem Group, the substantial shareholder of the Company, so as to make full use of domestic preferential policies for import of fertilizer raw materials. Pursuant to this agreement, Sinochem Group will import sulphur and other fertilizer raw materials sourced by Dohigh Trading and sell them all to Sinochem Fertilizer. Except for any sulphur and other fertilizer raw materials imported by Sinochem Group on behalf of its other customers, Sinochem Group will sell all the sulphur and other fertilizer raw materials it imports to Sinochem Fertilizer.

Under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement, unless otherwise determined by the PRC government, the pricing principles for the sale and purchase of sulphur and other fertilizer raw materials between the parties are as follows: (i) the price to be paid by Sinochem Group to Dohigh Trading for sulphur and other fertilizer raw materials sold by Dohigh Trading to Sinochem Group will be set in accordance with the prevailing international market price; (ii) the price to be paid by Sinochem Fertilizer to Sinochem Group for sulphur and other fertilizer raw materials sourced from overseas by Dohigh Trading will be set on a cost basis, that is, the price of the sulphur and other fertilizer raw materials acquired by Sinochem Group from Dohigh Trading plus product inspection costs, customs and excise handling charges, import duty, value-added tax and a reasonable administration cost incurred by Sinochem Group in relation to the import of sulphur and other fertilizer raw materials; and (iii) the price to be paid by Sinochem Fertilizer to Sinochem Group for sulphur and other fertilizer raw materials sourced by Sinochem Group directly from overseas will be set in accordance with the domestic wholesale market price.

The maximum aggregate annual value in respect of the continuing connected transactions between Dohigh Trading and Sinochem Group under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement for each of the three years ended 31 December 2011 is estimated to be US$20,000,000, US$25,000,000 and US$25,000,000, respectively. In addition, the maximum aggregate annual value in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement for each of the three years ended 31 December 2011 is RMB160,310,000, RMB200,390,000 and RMB200,390,000, respectively.

Given that each of the relevant applicable percentage ratios set out in the Listing Rules for the transactions under the Sulphur and Other Fertilizer Raw Materials Import Framework Agreement is less than 2.5% on an annual basis, such transactions fall within Rule 14A.34 of the Listing Rules, and are subject to the reporting and announcement requirements under Rules 14A.45 and 14A.46 of the Listing Rules and the annual review requirements under Rules 14A.37 and 14A.38 of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 1 April 2009 published by the Company.

(5) *Financial Services Framework Agreement between the Company and Sinochem Finance*

On 21 December 2009, the Company and Sinochem Finance entered into a Financial Services Framework Agreement under which Sinochem Finance provides financial services, such as deposit services to the Group. The agreement shall be effective for three year from the date of its signing. Pursuant to the Framework Agreement, the Group may, based on its actual needs and wills, utilize the services as deposit services, provision of loans (excluding entrustment loans), arrangement of entrustment loans, commercial bills of exchange services, buyer financing services, settlement services, provision of guarantees, internet banking services and any other financial services as approved by China Banking Regulatory Commission to be provided by Sinochem Finance, and, under the Framework Agreement, pay the relevant interest and service fees to or receive deposit interest from Sinochem Finance. The interests receipt from deposit services, the interests payable for the provision of loans, the fees charged for the provision of guarantees, internet banking services and other financial services approved by CBRC are determined by the standard rates as promulgated by the People's Bank of China from time to time or the prevailing market rates. The service fee and relevant interests payable for the arrangement of entrustment loans, commercial bills of exchange services and settlement services will not exceed the service fee and interest payable on such services under the same terms obtainable from independent commercial banks. No service fee is payable for buyer financing services.

Sinochem Finance is a wholly owned subsidiary of Sinochem Group, the substantial shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the financial services provided by Sinochem Finance to the Group under the Framework Agreement constitutes continuing connected transactions of the Company. As the relevant applicable percentage ratios set out in the Listing Rules for the aggregate amount of the deposit services under the Framework Agreement will be less than 2.5% on an annual basis, the deposit services (including the approved cap) are subject to the reporting and announcement requirements but are exempt from the independent shareholders' approval requirements under the Listing Rules. The Company expects that the annual cap on the outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance is RMB580,000,000 during the term of the Framework Agreement. This amount has been calculated on the basis of several factors including (i) the capital management strategy of the Group; and (ii) the business development and financial needs of the Group. The approved cap refers to the maximum daily outstanding balance during the term of the Framework Agreement, and is not cumulative in nature.

In respect of loan services, pursuant to Rule 14A.65(4) of the Listing Rules, the continuing connected transactions involving the provision of loans to the Group by Sinochem Finance (excluding entrustment loans) are exempt from the reporting, announcement and independent shareholders' approval requirements as these constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance.

Except for the deposit and loan services, other financial services under the Framework Agreement are exempt from the reporting, announcement and independent shareholders' approval requirements, as each of the relevant applicable percentage ratios in relation to the transaction amounts for these categories are, if aggregated on an annual basis, expected to be less than 0.1% under Rule 14A.31(2)(a) of the Listing Rules.

In addition, for any other financial services as approved by CBRC, the Company will comply with the relevant provisions under Chapters 14 and 14A of the Listing Rules as and when appropriate.

For detailed information on the aforesaid transactions, please refer to the announcement dated 22 December 2009 published by the Company.

(6) SPM and MP MOUs between Sinochem Macao and PCS Sales

On 21 December 2009, Sinochem Macao entered into the SPM MOU with PCS Sales, under which PCS Sales supplies sulfate of potash magnesia to Sinochem Macao for a maximum of three years from 1 January 2010 to 31 December 2012. In addition, on the same day, Sinochem Macao entered into the MP MOU with PCS Sales, under which PCS Sales will supply muriate of potash to Sinochem Macao for a maximum of three years from 1 January 2010 to 31 December 2012.

During the effective period under the SPM MOU and MP MOU, prices for the sulfate of potash magnesia and muriate of potash to be supplied will be determined through arms' length negotiations between the parties with reference to prevailing market conditions. The aggregate annual caps for the above two transactions under the MOUs are US$222,000,000, US$228,000,000 and US$234,000,000 for the three years ending 31 December 2012, respectively.

PCS Sales is a wholly-owned subsidiary of PotashCorp. As PotashCorp is a substantial shareholder of the Company, PCS Sales is a connected person of the Company by virtue of being an associate of PotashCorp. Accordingly, the continuing transactions between Sinochem Macao and PCS Sales constitute continuing connected transactions for the Company under the Listing Rules. As the applicable percentage ratios for the transactions contemplated under the MOUs are, on an annual basis, more than 2.5% and the total consideration for the MOUs is more than HK$10,000,000, the MOUs and the transactions contemplated thereunder are subject to the reporting, announcement and independent shareholders' approval requirements as set out in Rule 14A.35 of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 22 December 2009 and the circular dated 12 January 2010. The aforesaid two transactions have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 18 March 2010.

(7) Provision of Logistics Services to Sinochem Fertilizer and Tianjin Beifang by Tianjin Beihai

On 24 September 2008, Sinochem Fertilizer entered into the SF Service Agreement and Tianjin Beifang entered into the 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 a 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 are aggregated and treated as if they were one transaction pursuant to Rule 14A.25 of the Listing Rules. The annual caps for the transactions for each of the three years ended 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 ended 31 December 2011.

As each of the relevant percentage ratios set out in the Listing Rules in respect of the aggregate amount of the annual caps for the New Service Agreements are, on an annual basis, less than 2.5%, the New Service Agreements are classified as continuing connected transactions of the Company under the then Rule 14A.34 of the Listing Rules and are subject to the reporting and announcement requirement set out in Rules 14A.45 to I4A.47 of the Listing Rules, but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 24 September 2008 published by the Company.

2. The annual caps approved for and the actual transaction amount of continuing connected transactions of the Group for the year ended 31 December 2011 are set out below:

Name of Transactions			Currency	For the year ended 31 December 2011 Annual Caps *('000)*	Actual Transacted Amount *('000)*
Continuing Connected Transactions subject to Independent Shareholders' Approval Requirements					
1.	Sinochem Macao purchases Canadian Potash from Canpotex		USD	600,000	584,818
2.	Fertilizer Sales Co-operation Framework Agreement				
	(i)	Sinochem Group imports from Sinochem Macao	USD	1,370,000	1,157,227
	(ii)	Sinochem Fertilizer purchases from Sinochem Group	RMB	11,657,104	7,301,888
Continuing Connected Transactions exempted from Independent Shareholders' Approval Requirement but Subject to Reporting, Announcement and Annual Review Requirements					
3.	Sinochem Fertilizer purchases agrichemical products from Sinochem Group and its associates		RMB	150,000	4,322
4.	Sulphur and Other Fertilizer Raw Materials Import Framework Agreement:				
	(i)	Dohigh Trading supplies sulphur and other fertilizer raw materials to Sinochem Group	USD	25,000	10,316
	(ii)	Sinochem Fertilizer purchases sulphur and other fertilizer raw materials from Sinochem Group	RMB	200,390	61,907
5.	Outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance		RMB	580,000	506,680
6.	Sinochem Macao purchases sulfate of potash magnesia and muriate potash from PCS Sales		USD	228,000	1,155
7.	(i)	Tianjin Beihai provides logistics services to Sinochem Fertilizer	RMB	80,000	–
	(ii)	Tianjin Beihai provides packaging services to Tianjin Beifang	RMB	80,000	3,646

3. Confirmation from Independent Non-Executive Directors

In the opinion of the Independent Non-executive Directors of the Company, the continuing connected transactions for the year ended 31 December 2011 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 favourable 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.

4. Confirmation from independent auditor in respect of the continuing connected transactions

The Board has received a letter from the independent auditor in respect of the above disclosed continuing connected transactions, which confirmed that:

- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of directors;
- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in accordance with the pricing policies of the Company;
- nothing has come to their attention that causes them to believe that the transactions were not entered into, in accordance with the relevant agreements governing such transactions; and
- with respect to the aggregate amount of each of the disclosed continuing connected transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the maximum aggregate annual values of relevant amount disclosed in the previous announcements made by the Company.

Contracts of Significance between the Company and the Controlling Shareholder

Sinochem Group is the ultimate controlling shareholder of the Company. The contracts of significance between the Company and/or its subsidiaries with Sinochem Group and/or its subsidiaries are disclosed in details in the section headed "Connected Transactions" in this Directors' Report.

Major Discloseable Events

Save for the disclosures in this report, the Company had no other major discloseable events during the year ended 31 December 2011.

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 maintained sufficient public float exceeding 25% of its issued share capital throughout the year ended 31 December 2011.

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" on page 51.

Retirement Benefits Scheme

Details of the retirement benefits scheme of the Group are set out in note 42 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

On 8 January 2012, the Group entered into a share purchase agreement (the "Agreement") to acquire 100% interests in Xundian Lomon Phosphorus Chemical Co., Ltd. 尋甸龍蟒磷化工有限責任公司 ("Xundian Lomon") with a consideration of RMB1,380,000,000. The details of the Agreement were included in the announcement of the Company dated 9 January 2012. According to the Agreement, the consideration should be settled in instalments. The first instalment of RMB250,000,000 and the second instalment of RMB250,000,000 have been paid up to the date of this report. Up to the date of this report, Xundian Lomon completed its amendments to the business registration documents, accordingly, Xundian Lomon becomes a subsidiary of the Group. On 19 March 2012, Xundian Lomon changed its name to Sinochem Yunlong Chemical Co., Ltd. 中化雲龍化工有限公司.

Auditor

The consolidated financial statements of the Group for the year ended 31 December 2011 have been audited by Messrs. Deloitte Touche Tohmatsu.

For and on behalf of the Board

Liu De Shu
Chairman

Hong Kong, 22 March 2012

INDEPENDENT AUDITOR'S REPORT

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 82 to 167, which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of consolidated financial statements that give a true and fair view 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 2011, 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
22 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011 RMB'000**	2010 RMB'000
Revenue	5	**36,684,963**	29,271,077
Cost of sales		**(34,595,274)**	(27,780,079)
Gross profit		**2,089,689**	1,490,998
Other income and gains	6	**169,122**	372,069
Distribution and selling expenses		**(715,425)**	(763,325)
Administrative expenses		**(546,039)**	(500,305)
Other expenses and losses		**(217,895)**	(142,796)
Share of results of associates		**201,261**	184,565
Share of results of jointly controlled entities		**74,966**	58,118
Finance costs	7	**(341,773)**	(314,789)
Changes in fair value of derivative financial instruments		**46,923**	98,327
Impairment loss on goodwill	18	**(265,357)**	–
Gain on deemed dilution of interest in an associate		**341,029**	–
Profit before tax		**836,501**	482,862
Income tax expense	8	**(150,717)**	(481)
Profit for the year	10	**685,784**	482,381
Other comprehensive expense			
Exchange differences arising on translation		**(198,135)**	(139,760)
Changes in fair value of available-for-sale investments		**(70,956)**	(5,222)
Reclassification adjustment for the cumulative loss included in profit or loss upon disposal of available-for-sale investments		**6,746**	–
Reclassification adjustment for the cumulative loss included in profit or loss upon impairment of available-for-sale investments		**69,073**	16,079
Income tax expense relating to components of other comprehensive income		**(1,215)**	(420)
Other comprehensive expense for the year, net of income tax expense	9	**(194,487)**	(129,323)
Total comprehensive income for the year		**491,297**	353,058
Profit for the year attributable to:			
– Owners of the Company		**677,968**	535,711
– Non-controlling interests		**7,816**	(53,330)
		685,784	482,381
Total comprehensive income attributable to:			
– Owners of the Company		**483,481**	406,388
– Non-controlling interests		**7,816**	(53,330)
		491,297	353,058
Earnings per share			
Basic (RMB)	14	**0.0966**	0.0763
Diluted (RMB)	14	**0.0922**	0.0667

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
Non-current Assets			
Property, plant and equipment	15	**4,536,843**	4,848,151
Prepaid lease payments	16	**606,111**	515,916
Investment properties	17	**14,600**	14,600
Goodwill	18	**289,017**	568,705
Other long-term assets	20	**32,600**	40,443
Interests in associates	21	**7,754,435**	7,192,250
Interests in jointly controlled entities	22	**718,877**	589,486
Available-for-sale investments	23	**173,367**	266,624
Advance payments for acquisition of property, plant and equipment		**40,376**	25,420
Deferred tax assets	32	**756,462**	868,894
		14,922,688	14,930,489
Current Assets			
Inventories	24	**7,464,114**	5,138,088
Trade and bills receivables	25	**1,708,761**	3,059,884
Advance payments to suppliers		**2,151,215**	1,853,543
Other receivables		**179,464**	134,763
Prepaid lease payments	16	**13,380**	31,741
Other deposits	26	**1,649,088**	50,100
Pledged bank deposits	27	**7,435**	22,638
Bank balances and cash	27	**302,345**	223,317
		13,475,802	10,514,074
Current Liabilities			
Trade and bills payables	28	**5,531,629**	2,575,807
Receipts in advance		**3,484,605**	2,160,939
Other payables		**373,543**	293,784
Derivative financial instruments	29	**–**	48,058
Tax liabilities		**9,487**	4,414
Convertible loan notes	29	**–**	646,486
Borrowings – due within one year	30	**2,349,358**	2,993,369
		11,748,622	8,722,857
Net Current Assets		**1,727,180**	1,791,217
Total Assets less Current Liabilities		**16,649,868**	16,721,706

	Notes	2011 RMB'000	2010 RMB'000
Capital and Reserves			
Issued equity	31	**8,264,318**	8,260,977
Reserves		**4,769,483**	4,343,287
Equity attributable to owners of the Company		**13,033,801**	12,604,264
Non-controlling interests		**335,082**	329,770
Total Equity		**13,368,883**	12,934,034
Non-current Liabilities			
Deferred tax liabilities	32	**59,040**	54,048
Borrowings – due after one year	30	**3,072,008**	3,572,989
Deferred income		**149,937**	160,635
		3,280,985	3,787,672
Total Equity and Non-current Liabilities		**16,649,868**	16,721,706

The consolidated financial statements on pages 82 to 167 were approved and authorized for issue by the board of directors on 22 March 2012 and are signed on its behalf by:

Liu De Shu
Director

Feng Zhi Bin
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Issued equity	Merger reserve	Capital reserve	Other reserve	Statutory reserves	Investment revaluation reserve	Share option reserve	Translation reserve	Retained profits	Total	Non-controlling interests	Total
	RMB'000	*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)*	*(note d)*							
At 1 January 2010	8,248,928	255,531	485,551	–	384,071	(14,085)	11,625	(392,070)	3,172,387	12,151,938	383,100	12,535,038
Profit for the year	–	–	–	–	–	–	–	–	535,711	535,711	(53,330)	482,381
Other comprehensive expense for the year	–	–	–	–	–	10,437	–	(139,760)	–	(129,323)	–	(129,323)
Total comprehensive income for the year	–	–	–	–	–	10,437	–	(139,760)	535,711	406,388	(53,330)	353,058
Energy saving and emission reduction fund	–	–	–	36,290	–	–	–	–	–	36,290	–	36,290
Exercise of share options	12,049	–	–	–	–	–	(2,724)	–	–	9,325	–	9,325
Recognition of equity-settled share-based payment	–	–	–	–	–	–	323	–	–	323	–	323
Lapse of share options	–	–	–	–	–	–	(1,192)	–	1,192	–	–	–
At 31 December 2010	8,260,977	255,531	485,551	36,290	384,071	(3,648)	8,032	(531,830)	3,709,290	12,604,264	329,770	12,934,034

	Issued equity RMB'000	Merger reserve RMB'000 (note a)	Capital reserve RMB'000 (note b)	Other reserve RMB'000 (note c)	Statutory reserves RMB'000 (note d)	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Translation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 31 December 2010	8,260,977	255,531	485,551	36,290	384,071	(3,648)	8,032	(531,830)	3,709,290	12,604,264	329,770	12,934,034
Profit for the year	-	-	-	-	-	-	-	-	677,968	677,968	7,816	685,784
Other comprehensive expense for the year	-	-	-	-	-	3,648	-	(198,135)	-	(194,487)	-	(194,487)
Total comprehensive income for the year	-	-	-	-	-	3,648	-	(198,135)	677,968	483,481	7,816	491,297
Energy saving and emission reduction fund	-	-	-	6,960	-	-	-	-	-	6,960	-	6,960
Exercise of share options	2,973	-	-	-	-	-	(635)	-	-	2,338	-	2,338
Lapse of share options	-	-	-	-	-	-	(860)	-	860	-	-	-
Dividend paid	-	-	-	-	-	-	-	-	(64,171)	(64,171)	-	(64,171)
Conversion of convertible loan notes	368	-	-	-	-	-	-	-	-	368	-	368
Acquisition of non-controlling interests	-	-	561	-	-	-	-	-	-	561	(2,504)	(1,943)
At 31 December 2011	8,264,318	255,531	486,112	43,250	384,071	-	6,537	(729,965)	4,323,947	13,033,801	335,082	13,368,883

Notes:

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

(b) The capital reserve of the Group mainly represents contributions from/distributions to the ultimate holding company, and difference between the carrying amount of non-controlling interests acquired and the fair value of consideration paid.

(c) Other reserve mainly represents funding received from the Company's ultimate holding company, Sinochem Group, which can only be used to fund energy saving and emission reduction projects.

(d) Statutory reserves comprise of reserve fund and enterprise expansion fund. In accordance with relevant rules and regulations 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 reserve fund, until the accumulated amount of the fund reaches 50% of their registered capital. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC. Reserve fund and enterprise expansion fund may be distributed to investors in the form of bonus issue.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 *RMB'000*	2010 *RMB'000*
OPERATING ACTIVITIES		
Profit before tax	**836,501**	482,862
Adjustments for:		
Share of results of jointly controlled entities	**(74,966)**	(58,118)
Release of prepaid lease payments	**22,987**	30,791
Gain on disposal of a jointly controlled entity	**–**	(23,665)
Depreciation of property, plant and equipment	**397,218**	242,740
Impairment on property, plant and equipment	**81,323**	40,681
Loss (gain) on disposal of property, plant and equipment	**11,013**	(3,978)
Share of results of associates	**(201,261)**	(184,565)
Interest income from bank deposits	**(6,911)**	(195)
Finance costs	**341,773**	314,789
Dividend income from available-for-sale investments	**(2,666)**	(2,271)
Gain on disposal a subsidiary	**–**	(51,262)
Write-off of non-demand payables	**(129)**	(74,236)
(Reversal of) allowance provided on trade receivables	**(16,008)**	11,913
(Reversal of) write-down of other receivables	**(4,016)**	11,277
Impairment loss on available-for-sale investments	**69,073**	16,079
Impairment loss on goodwill	**265,357**	–
Changes in fair value of derivative financial instruments	**(46,923)**	(98,327)
Write-down of inventories	**55,257**	70,182
Amortization of other long-term assets	**14,375**	14,497
Recognition of share-based payment expenses	**–**	323
Release of deferred income	**(9,198)**	(8,720)
Cumulative loss recognized in profit or loss upon disposal of available-for-sale investment	**6,746**	–
Gain on deemed dilution of interest in an associate	**(341,029)**	–
Interest income from other deposits	**(92,524)**	(4,392)
Operating cash flows before movements in working capital	**1,305,992**	726,405
(Increase) decrease in inventories	**(2,400,846)**	608,381
Decrease (increase) in trade and bills receivables	**1,090,830**	(494,019)
Increase in advance payments to suppliers and other receivables	**(376,236)**	(612,076)
Increase in deferred income	**1,500**	98,100
Increase in trade and bills payables	**3,018,100**	468,112
Increase in receipts in advances and other payables	**1,389,039**	617,293
Cash generated from operations	**4,028,379**	1,412,196
Income tax paid	**(29,435)**	(30,381)
Income tax refunded	**–**	105,950
NET CASH FROM OPERATING ACTIVITIES	**3,998,944**	1,487,765

	Note	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Additions of prepaid lease payments		**(94,821)**	(69,863)
Acquisition of an available-for-sale investment		**(4,000)**	–
Addition to investment in an associate		**–**	(1,600)
Addition to investment in an jointly controlled entity		**(80,000)**	–
Purchases of property, plant and equipment		**(218,288)**	(325,862)
Placements of other deposits		**(33,957,300)**	(50,100)
Proceeds from withdrawal of other deposits		**32,358,312**	–
Acquisition of other long-term assets		**(6,532)**	(10,767)
Dividends received from available-for-sale investments		**2,666**	2,271
Dividends received from jointly controlled entities		**25,575**	23,201
Dividends received from associates		**–**	57,389
Interest received from bank deposits		**6,911**	4,587
Disposal of a subsidiary	43	**–**	(1)
Proceeds from disposals of a jointly controlled entity		**–**	110,000
Proceeds from disposals of property, plant and equipment		**27,928**	43,535
Withdrawal of pledged bank deposits		**15,203**	177
Interest received from other deposits		**91,227**	–
Acquisition of a subsidiary	43	**350**	–
NET CASH USED IN INVESTING ACTIVITIES		**(1,832,769)**	(217,033)
FINANCING ACTIVITIES			
Interest paid		**(304,421)**	(322,984)
Proceeds from exercise of options		**2,338**	9,325
Proceeds from borrowings raised		**8,847,445**	7,532,105
Acquisition of non-controlling interests		**(1,943)**	–
Repayments of borrowings		**(9,916,003)**	(8,492,272)
Dividends paid		**(64,171)**	–
Energy-saving and emission reduction fund received		**6,960**	36,290
Redemption of convertible loan notes		**(656,572)**	–
NET CASH USED IN FINANCING ACTIVITIES		**(2,086,367)**	(1,237,536)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**79,808**	33,196
CASH AND CASH EQUIVALENTS AT 1 JANUARY		**223,317**	190,584
Effect of foreign exchange rate changes		**(780)**	(463)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER represented by bank balances and cash		**302,345**	223,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

1. GENERAL

Sinofert Holdings Limited (the "Company", together with its subsidiaries hereinafter collectively referred to as the "Group") 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 Group (established in 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. The Group mainly engaged in manufacturing and selling of fertilizers and related products. Details of the Company's subsidiaries are set out in Note 40.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised HKFRSs applied in the current year

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC) – Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

HKFRS 24 Related Party Disclosures

HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities whilst the previous version of HKAS 24 did not contain specific exemption for government-related entities. The Company and its subsidiaries are government-related entities as defined in HKAS 24 (as revised in 2009). Under HKAS 24 (as revised in 2009), the Group has been exempted from making the disclosures required by paragraph 18 of HKAS 24 (as revised in 2009) in relation to related party transactions and outstanding balances (including commitments) with (a) the PRC government that ultimately has control over the Group and (b) other entities that are controlled, jointly controlled, or significantly influenced by the PRC government. Rather, in respect of these transactions and balances, HKAS 24 (as revised in 2009) requires the Group to disclose (a) the nature and amount of each individually significant transaction, and (b) a qualitative or quantitative indication of the extent of transactions that are collectively, but not individually, significant.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group's financial performance and positions for the current and prior years. However, the related party disclosures set out in Note 39 to the consolidated financial statements have been changed to reflect the application of HKAS 24 (as revised in 2009).

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

Amendments to HKFRS 7	Disclosures – Transfers of Financial Assets[1]
	Disclosures – Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transaction Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax – Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2013
3 Effective for annual periods beginning on or after 1 January 2015
4 Effective for annual periods beginning on or after 1 January 2012
5 Effective for annual periods beginning on or after 1 July 2012
6 Effective for annual periods beginning on or after 1 January 2014

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

New and revised HKFRSs issued but not yet effective (Continued)

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognized financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

The directors of the Company anticipate that the adoption of HKFRS 9 in the future may have significant impact on amounts reported in respect of the Group's financial assets (particularly, the Group's investments in unlisted equity securities that are currently classified as available-for-sale investments measured at cost).

The directors of the Company are currently assessing the impacts of application of other new and revised standards, amendments and interpretations will have on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The principal accounting policies are 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 statement of comprehensive income from the effective date of acquisition and 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 in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another Standard.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently whenever there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit 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 profit or loss in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill 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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or jointly control over those policies.

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 initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. 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 recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments in associates (Continued)

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its associate, profits or losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group, 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.

Upon partial disposal of interest in an associate that doesn't results in the Group losing significant influence over that associate, the difference between the fair value of consideration received and amount of change in its proportional share of the associate's net assets (included any attributable goodwill) should be recognized in profit or loss for the period.

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 initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. 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. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Jointly controlled entities (Continued)

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of a jointly controlled entity recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

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

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of a jointly controlled entity that results in the Group losing joint control over that jointly controlled entity, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with HKAS 39. The difference between the previous carrying amount of the jointly controlled entity attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the jointly controlled entity. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that jointly controlled entity on the same basis as would be required if that jointly controlled entity had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that jointly controlled entity would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses joint control over that jointly controlled entity.

When a group entity transacts with its jointly controlled entity, profits or losses resulting from the transactions with the jointly controlled entity are recognized in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Sales of goods

– Wholesales are recognized when a group entity has delivered products to the customer, the customer has accepted the products and collectability 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.

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

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the 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 on initial recognition.

Dividend income from investments including available-for-sale investments is recognized when the shareholders' rights to receive payments have been established, provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

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 as described below, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognized so as to write off the cost of items of property, plant and equipment other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories 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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Other long-term assets

Activators held for use in the production of goods are stated at cost less subsequent accumulated amortization and accumulated impairment losses.

Amortization is provided using the straight-line method.

Investment properties

Investment properties are properties held to earn rentals and/or for capital. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property 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 and 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 profit or loss in the year in which the item is derecognized.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

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

The Group as a lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is released over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

3. 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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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 retranslation 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 other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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 end of reporting period, and their income and expenses are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognized in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

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 retranslated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognized in the translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sales. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

Government grants

Government grants are not recognized until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognized in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related cost for which the grants are intended to compensate. Government grants related to depreciable assets are recognized as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Grants related to expense items are recognized in the same period as those expenses are charged to the profit or loss and are reported separately as Other income and gains in profit or loss.

Retirement benefit costs

Payments to the defined contribution retirement plan are recognized 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 statement of comprehensive income 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 end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax is recognized on temporary 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. 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 other 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. Deferred tax assets arising from deductible temporary difference associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period 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, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax is recognized in profit or loss, except when it relates to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

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

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position 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 or 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 investments. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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, points 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 to the net carrying amount on initial recognition.

Interest income is recognized on an effective interest rate basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and bills receivables, other receivables, other deposits, 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).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Available-for-sale investments

Available-for-sale investments 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.

Available-for-sale investments are measured at fair value at the end of each reporting period. Changes in fair value are recognized in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in investment revaluation reserve is reclassified to 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 the end of the reporting period 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 the end of the reporting period. Financial assets are considered to be 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
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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 credit period, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's 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.

When an available-for-sale investments is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

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 loss 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 through profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognized directly in other comprehensive income and accumulated in investment revaluation reserve.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs. The Group's financial liabilities are derivative financial instruments and other financial liabilities. The accounting policies adopted for specific financial liabilities are set out below.

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 (including all fees, points 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 liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

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 of cash or another financial asset for a 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, issuer's 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

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.

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 the end of each reporting period. 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

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, 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 other comprehensive income and accumulated in equity is recognized in profit or loss.

The Group derecognises a financial liability when, and only when, the Group's obligations are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates during the vesting period, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share option reserve.

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.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies which are described in Note 3, 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.

Impairment of inventories

Determining whether inventories are impaired requires an estimation of its net realizable value. Net realizable value of inventories is the expected selling price in the ordinary course of business, less estimated costs to completion and selling expenses. These estimates are based on current market conditions and the historical experience of manufacturing and selling products of similar nature. These estimates 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 the end of each reporting period. As at 31 December 2011, the carrying amount of inventories is RMB7,464,114,000 (2010: RMB5,138,088,000).

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight line basis over the estimated useful lives of the assets. The Group reviews the estimated useful lives and residual values of the assets annually in order to determine the amount of depreciation expenses to be recorded during any reporting period. The useful lives and residual values are based on the Group's technological experience with similar assets and taking into account anticipated technological changes. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimations.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2011, the carrying amount of goodwill is RMB289,017,000 (2010: RMB568,705,000). Details of the recoverable amount calculation are disclosed in Note 19.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

Impairment of interest in associates

As at 31 December 2011, the carrying amount of interests in associates is RMB7,754,435,000 (2010: RMB7,192,250,000). The directors of the Company determine whether there are indicators for impairment in interests in individual associate at the end of each reporting period. Should the indicators exist, the Group will estimate fair value less costs to sell or value in use of relevant associates by estimating the future cash flows expected from those interests and a discount rate in order to calculate the present value. Where the actual fair value or future cash flows are significantly less than expected, a material impairment loss may arise.

Realisability of deferred tax assets

As at 31 December 2011, a deferred tax asset of RMB683,674,000 (2010: RMB819,480,000) in relation to unused tax losses has been recognized in the Group's consolidated statement of financial position. The Group has not recognized a deferred tax asset on the tax losses of RMB943,459,000 (2010: RMB793,694,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future taxable profits or taxable temporary differences will be available in the future. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such a reversal takes place.

5. SEGMENT INFORMATION

Information reported to the Group's chief operating decision maker for the purposes of resource allocation and assessment of segment performance focuses on types of business model.

The Group's operating segments under HKFRS 8 *Operating Segments* are as follows:

Sourcing and distribution	– sourcing and distribution of fertilizers and agricultural related products
Production	– production and sale of fertilizers

5. SEGMENT INFORMATION (Continued)

Information regarding to the above segment is reported below.

(a) Segment revenue and results and segment assets and liabilities

2011

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Total *RMB'000*
Revenue			
External revenue	30,724,278	5,960,685	36,684,963
Inter-segment revenue	212,907	2,719,977	2,932,884
Segment revenue	30,937,185	8,680,662	39,617,847
Elimination	(212,907)	(2,719,977)	(2,932,884)
	30,724,278	5,960,685	36,684,963
Segment profit	684,312	380,976	1,065,288
Unallocated expenses			(102,670)
Unallocated income			168,733
Finance costs			(341,773)
Changes in fair value of derivative financial instruments			46,923
Profit before tax			836,501
Assets			
Segment assets	7,925,119	17,581,227	25,506,346
Available-for-sale investments			173,367
Deferred tax assets			756,462
Other unallocated assets			1,962,315
Consolidated total assets			28,398,490
Liabilities			
Segment liabilities	7,993,287	1,535,122	9,528,409
Deferred tax liabilities			59,040
Other unallocated liabilities			5,442,158
Consolidated total liabilities			15,029,607

5. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results and segment assets and liabilities (Continued)

2010

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Total *RMB'000*
Revenue			
External revenue	25,324,421	3,946,656	29,271,077
Inter-segment revenue	358,022	2,970,394	3,328,416
Segment revenue	25,682,443	6,917,050	32,599,493
Elimination	(358,022)	(2,970,394)	(3,328,416)
	25,324,421	3,946,656	29,271,077
Segment profit	451,862	73,198	525,060
Unallocated expenses			(48,642)
Unallocated income			222,906
Finance costs			(314,789)
Changes in fair value of derivative financial instruments			98,327
Profit before tax			482,862
Assets			
Segment assets	8,310,672	15,698,601	24,009,273
Available-for-sale investments			266,624
Deferred tax assets			868,894
Other unallocated assets			299,772
Consolidated total assets			25,444,563
Liabilities			
Segment liabilities	3,358,989	1,820,592	5,179,581
Deferred tax liabilities			54,048
Other unallocated liabilities			7,276,900
Consolidated total liabilities			12,510,529

5. SEGMENT INFORMATION (Continued)

(a) Segment revenue and results and segment assets and liabilities (Continued)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without taking into account of unallocated expenses/income, changes in fair value of derivative financial instruments and finance costs. This is the measure reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment.

Inter-segment sales are charged at market prices between group entities.

For the purposes of monitoring segment performances and allocating resources between segments:

- All assets are allocated to operating segments other than corporate assets, investment related assets and deferred tax assets; and

- All liabilities are allocated to operating segments other than corporate liabilities, borrowings, convertible loan notes, current and deferred tax liabilities.

5. SEGMENT INFORMATION (Continued)

(b) Other segment information

2011

	Sourcing and distribution RMB'000	Production RMB'000	Corporate unallocated RMB'000	Total RMB'000
Amounts included in the measures of segment profit and segment assets:				
Additions to non-current assets	25,137	377,343	6	402,486
Interests in associates	16,680	7,737,755	–	7,754,435
Interests in jointly controlled entities	2,387	716,490	–	718,877
Reversal of allowance provided on trade receivables	–	16,008	–	16,008
Reversal of write-down of other receivables	–	4,016	–	4,016
Impairment on property, plant and equipment	–	(81,323)	–	(81,323)
Depreciation and amortization	(13,077)	(398,505)	(11)	(411,593)
Release of prepaid lease payments	–	(22,987)	–	(22,987)
Write-down of inventories	(47,564)	(7,693)	–	(55,257)
Gain (loss) on disposal of property, plant and equipment	126	(11,139)	–	(11,013)
Share of results of associates	173	201,088	–	201,261
Gain on deemed dilution of interest in an associate	–	341,029	–	341,029
Share of results of jointly controlled entities	78	74,888	–	74,966
Impairment loss on goodwill	–	(265,357)	–	(265,357)
Write-off of non-demand payables	1	128	–	129

5. SEGMENT INFORMATION (Continued)

(b) Other segment information (Continued)

2010

	Sourcing and distribution *RMB'000*	Production *RMB'000*	Corporate unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit and segment assets:				
Additions to non-current assets	11,436	458,307	8	469,751
Interests in associates	17,327	7,174,923	–	7,192,250
Interests in jointly controlled entities	2,309	587,177	–	589,486
Allowance provided on trade receivables	–	(11,913)	–	(11,913)
Write-down of other receivables	(2,620)	(8,657)	–	(11,277)
Impairment on property, plant and equipment	–	(40,681)	–	(40,681)
Depreciation and amortization	(8,298)	(247,924)	(1,015)	(257,237)
Release of prepaid lease payments	–	(30,791)	–	(30,791)
Write-down of inventories	(64,832)	(5,350)	–	(70,182)
(Loss) gain on disposal of property, plant and equipment	(71)	4,049	–	3,978
Share of results of associates	(962)	185,527	–	184,565
Share of results of jointly controlled entities	133	57,985	–	58,118
Gain on disposal of a subsidiary	–	51,262	–	51,262
Gain on disposal of a jointly controlled entity	–	23,665	–	23,665
Write-off of non-demand payables	25,857	48,090	289	74,236

5. SEGMENT INFORMATION (Continued)

(c) Revenue from major products

The following is an analysis of the Group's revenue from its major products:

	2011 RMB'000	2010 RMB'000
Potash fertilizers	**9,164,189**	7,321,999
Nitrogen fertilizers	**12,446,459**	9,875,618
Compound fertilizers	**6,401,861**	4,547,083
Phosphate fertilizers	**7,438,971**	6,380,334
Others	**1,233,483**	1,146,043
Total	**36,684,963**	29,271,077

(d) Geographical information

The Group's operations are mainly located in the PRC mainland and Macao Special Administrative Region ("Macao SAR").

Information about the Group's revenue from its operations from external customers is presented based on the customers' location of incorporation/establishment. Information about the Group's non-current assets other than financial instruments and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2011 RMB'000	2010 RMB'000	2011 RMB'000	2010 RMB'000
The PRC	**35,578,648**	27,704,478	**13,976,899**	13,794,724
Others	**1,106,315**	1,566,599	**15,960**	247
	36,684,963	29,271,077	**13,992,859**	13,794,971

(e) Information about major customers

No revenue from a single external customer amounts to 10% or more of the Group's revenue during both years.

6. OTHER INCOME AND GAINS

	2011	2010
	RMB'000	*RMB'000*
Rental income	**3,148**	2,625
Dividend income from available-for-sale investments *(note a)*	**2,666**	2,271
Interest income from bank deposits	**6,911**	4,587
Government grants *(note b)*	**3,404**	114,422
Exchange gain	**6,271**	35,753
Gain on disposal of property, plant and equipment	**–**	3,978
Release of deferred income	**9,198**	8,720
Compensation received	**9,878**	8,022
Write-off of non-demand payables	**129**	74,236
Gain on disposal of a subsidiary *(Note 43)*	**–**	51,262
Gain on disposal of a jointly controlled entity *(note c)*	**–**	23,665
Interest income from other deposits	**92,524**	4,392
Sales of scrapped materials	**18,684**	24,544
Others	**16,309**	13,592
	169,122	372,069

Notes:

a. Amount represents dividend income from listed investments of RMB1,488,000 (2010: RMB1,608,000) and from unlisted investments of RMB1,178,000 (2010: RMB663,000).

b. Government grants mainly comprised of payments from the government to support development of the business of the group entities in accordance with applicable regulations in the PRC.

c. In 2010, the Group partially disposed of its investment in a jointly controlled entity to its venture at a consideration of RMB110,000,000 and a gain of RMB23,665,000 was recognized in profit or loss. The remaining interest in this entity was accounted for as available-for-sale investments, which was initially recognized at its fair value of RMB85,000,000.

7. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Interests on borrowings		
– wholly repayable within five years	**200,773**	208,186
– not wholly repayable within five years	**117,188**	127,605
Interests on convertible loan notes	**25,725**	42,255
Less: amount capitalized	**(1,913)**	(63,257)
	341,773	314,789

Borrowing costs capitalized during the year arose on the general borrowing pool and are calculated by applying a capitalization rate of 5.47% (2010: 5.86%) per annum to expenditure on qualifying assets.

8. INCOME TAX EXPENSE

	2011 RMB'000	2010 RMB'000
Current tax:		
Hong Kong Profits Tax	**(10,420)**	(3,972)
PRC Enterprise Income Tax	**(24,088)**	(6,634)
	(34,508)	(10,606)
Overprovision in prior years:		
PRC Enterprise Income Tax	**–**	19,724
Deferred tax *(Note 32)*		
Current year	**(116,209)**	(9,599)
	(150,717)	(481)

8. INCOME TAX EXPENSE (Continued)

Hong Kong Profits Tax is calculated at 16.5% on the estimated assessable profit for both years.

PRC Enterprise Income Tax is calculated at 25% on the estimated profit for both years.

According to the Enterprise Income Tax 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 overseas in the foreseeable future.

A subsidiary of the Group incorporated in Macao SAR is exempted from income tax.

A statement of reconciliation of taxation is as follows:

	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**836,501**	482,862
Tax calculated at the applicable tax rate of 25%	**(209,125)**	(120,716)
Tax effect of expenses not deductible for tax purposes	**(31,910)**	(38,393)
Tax effect of income not taxable for tax purposes	**1,846**	34,620
Tax effect of share of results of jointly controlled entities	**18,742**	14,530
Tax effect of share of results of associates	**50,315**	46,141
Effect of different income tax rates	**31,956**	110,820
Effect of utilization of tax losses and deductible temporary differences not recognized previously	**6,727**	6,822
Effect of tax losses and deductible temporary differences not recognized	**(38,186)**	(74,029)
Tax effect of impairment loss on goodwill	**(66,339)**	–
Tax effect of gain on deemed dilution of interest in an associate	**85,257**	–
Overprovision in prior years	**–**	19,724
Income tax expense for the year	**(150,717)**	(481)

9. OTHER COMPREHENSIVE EXPENSE

Other comprehensive expense includes:

	2011 RMB'000	2010 RMB'000
Exchange differences arising on translating foreign operations:		
Exchange differences arising on translation	**(198,135)**	(139,760)
Available-for-sale investments:		
Changes in fair value	**(70,956)**	(5,222)
Reclassification adjustments for the cumulative loss included in profit or loss upon disposal	**6,746**	–
Reclassification adjustments included in profit or loss upon impairment	**69,073**	16,079
	4,863	10,857
Income tax expense relating to components of other comprehensive expense (see below)	**(1,215)**	(420)
Other comprehensive expense (net of tax)	**(194,487)**	(129,323)

Income tax effects relating to other comprehensive expense are as follows:

	2011			2010		
	Before-tax amount RMB'000	Income tax credit (expense) RMB'000	Net-of-tax amount RMB'000	Before-tax amount RMB'000	Income tax expense RMB'000	Net-of-tax Amount RMB'000
Changes in fair value of available-for-sale investments	**(70,956)**	**470**	**(70,486)**	(5,222)	(420)	(5,642)
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments	**6,746**	**(1,685)**	**5,061**	–	–	–
	(64,210)	**(1,215)**	**(65,425)**	(5,222)	(420)	(5,642)

10. PROFIT FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Directors' emoluments *(Note 11)*	**9,754**	6,374
Other staff benefits *(note a)*	**418,303**	414,264
Total employee benefits expenses	**428,057**	420,638
Depreciation of property, plant and equipment	**397,218**	242,740
Impairment loss on property, plant and equipment included in other expenses and losses	**81,323**	40,681
Release of prepaid lease payments	**22,987**	30,791
Amortization of other long-term assets	**14,375**	14,497
Auditors' remuneration	**4,756**	4,812
Minimum lease payments under operating lease in respect of properties *(note c)*	**103,432**	120,526
Direct operating expenses arising from investment properties that generate rental income	**481**	448
(Reversal of) allowance provided on trade receivables	**(16,008)**	11,913
(Reversal of) write-down of other receivables	**(4,016)**	11,277
Loss (gain) on disposal of property, plant and equipment	**11,013**	(3,978)
Write-down of inventories *(note b)*	**55,257**	70,182
Impairment loss on available-for-sale investments included in other expenses and losses	**69,073**	16,079
Cumulative loss recognized in profit or loss upon disposal of available-for-sale investment	**6,746**	–

Notes:

a. Included in other staff benefits are share-based payments and contribution to retirement benefits scheme for the year ended 31 December 2011 of RMB nil (2010: RMB258,000) and RMB28,792,000 (2010: RMB25,650,000) respectively. The total contribution to retirement benefits scheme of the Group for the year ended 31 December 2011 is RMB28,822,000 (2010: RMB25,718,000).

b. During the year ended 31 December 2011, write-down of inventories amounting to approximately RMB55,257,000 (2010: RMB70,182,000) is recorded and recognized in other expenses and losses. Such write-down is related to inventories on hand as at the end of reporting period.

c. Minimum lease payments under operating lease in respect of retail outlets, offices and warehouses.

11. DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the directors for the year ended 31 December 2011 were as follows:

	2011					
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000*	Retirement benefits scheme contribution *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
			(note a)			
Mr. Liu De Shu	–	–	–	–	–	–
Mr. Feng Zhi Bin	–	1,772	2,727	30	–	4,529
Mr. Harry Yang *(note b)*	–	1,903	1,941	–	–	3,844
Mr. Yang Lin	–	–	–	–	–	–
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Wade Fetzer III *(resigned on 16 June 2011)*	148	–	–	–	–	148
Ms. Xiang Dan Dan *(appointed on 16 June 2011)*	–	–	–	–	–	–
Mr. Ko Ming Tung, Edward	388	–	–	–	–	388
Dr. Tang Tin Sek	388	–	–	–	–	388
Mr. Tse Hau Yin, Aloysius	457	–	–	–	–	457
	1,381	3,675	4,668	30	–	9,754

Note:

a. The performance related incentive payments were determined with reference to the operating results of the Group, individual performance and relevant comparable market statistics during the year ended 31 December 2011.

b. During the year ended 31 December 2011, the Group paid RMB1,482,000 as salaries and paid RMB421,000 rental for housing of Mr. Harry Yang, all of which are included in salaries and other benefits.

11. DIRECTORS' REMUNERATION (Continued)

The emoluments paid or payable to each of the directors for the year ended 31 December 2010 were as follows:

	2010					
	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000*	Retirement benefits scheme contribution *RMB'000*	Share-based payments *RMB'000*	Total *RMB'000*
			(note a)	*(note c)*		
Mr. Liu De Shu	–	–	–	–	15	15
Mr. Feng Zhi Bin *(appointed on 15 July 2010)*	–	812	322	10	–	1,144
Mr. Du Ke Ping *(resigned on 15 July 2010)*	–	970	254	16	15	1,255
Mr. Harry Yang *(note b)*	–	1,889	408	–	15	2,312
Mr. Yang Lin *(appointed on 26 August 2010)*	–	–	–	–	–	–
Dr. Chen Guo Gang *(resigned on 26 August 2010)*	–	–	–	–	10	10
Dr. Stephen Francis Dowdle	–	–	–	–	–	–
Mr. Wade Fetzer III	335	–	–	–	10	345
Mr. Ko Ming Tung, Edward	407	–	–	–	–	407
Dr. Tang Tin Sek	407	–	–	–	–	407
Mr. Tse Hau Yin, Aloysius	479	–	–	–	–	479
	1,628	3,671	984	26	65	6,374

Note:

a. The performance related incentive payments were determined with reference to the operating results of the Group, individual performance and relevant comparable market statistics during the year ended 31 December 2010.

b. During the year ended 31 December 2010, the Group paid RMB1,482,000 as salaries and paid RMB407,000 rental for housing of Mr. Harry Yang, all of which are included in salaries and other benefits.

c. During the year ended 31 December 2010, the Group made pension contributions for Mr. Feng Zhi Bin and Mr. Du Ke Ping in the PRC, the amounts of which are included in the retirement benefits scheme contribution.

Mr. Liu De Shu, Mr. Yang Lin and Dr. Stephen Francis Dowdle, being Non-executive Directors of the Company, had agreed to waive their director's fee of HK$385,000 each (equivalent to approximately RMB320,000) for the year ended 31 December 2011 (2010: director's fee waived by Mr. Liu De Shu, Mr. Yang Lin and Dr. Stephen Francis Dowdle were RMB335,000, RMB117,500 and RMB335,000, respectively). Ms. Xiang Dan Dan, appointed as Non-executive Director of the Company on 16 June 2011, had also agreed to waive her director's fee of HK$203,500 (equivalent to approximately RMB173,000) for the year ended 31 December 2011.

12. EMPLOYEES' REMUNERATION

Of the five individuals with the highest emoluments in the Group, two (2010: three) were directors of the Company, whose emoluments are disclosed in Note 11. The emoluments of the remaining three (2010: two) individuals were as follows:

	2011 ***RMB'000***	2010 *RMB'000*
Salaries and other benefits	**1,965**	1,133
Performance related incentive payments	**2,574**	389
Retirement benefits scheme contributions	**60**	57
Share-based payments	**–**	15
	4,599	1,594

Their emoluments were within the following bands:

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**–**	2
HK$1,500,001 to HK$2,000,000	**3**	–

13. DIVIDENDS

	2011 ***RMB'000***	2010 *RMB'000*
Dividends recognized as distribution during the year: 2010 final dividends of HK$0.0110, equivalent to approximately RMB0.0091 per share (2010: no dividend was paid)	**64,171**	–
Proposed final dividend of HK$0.0166, equivalent to approximately RMB0.0135 per share (2010: proposed final dividend of HK$0.0110, equivalent to approximately RMB0.0094 per share)	**94,657**	65,715

The final dividend of HK$0.0166 (equivalent to approximately RMB0.0135) (2010: HK$0.0110 (equivalent to approximately RMB0.0094)) per share, total dividend of approximately RMB94,657,000 (2010: RMB65,715,000) in respect of the year ended 31 December 2011 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

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

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share	**677,968**	535,711
Effect of dilutive potential ordinary shares:		
Interest expense on convertible loan notes	**25,725**	42,255
Changes in fair value of derivative financial instruments	**(46,923)**	(98,327)
Earnings for the purpose of diluted earnings per share	**656,770**	479,639

	2011	2010
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,021,808**	7,019,206
Effect of dilutive potential ordinary shares from:		
Share options	**970**	2,271
Convertible loan notes	**99,591**	170,742
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,122,369**	7,192,219

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture & fixtures	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cost						
As at 1 January 2010	1,388,782	2,408,581	69,601	157,537	1,607,403	5,631,904
Exchange realignment	–	(114)	(46)	(90)	–	(250)
Eliminated on disposals	(977)	(15,104)	(8,468)	(5,116)	(25,059)	(54,724)
Additions	2,176	33,869	6,047	15,913	328,811	386,816
Eliminated on disposal of a subsidiary	(7,341)	(68)	–	(422)	(203,453)	(211,284)
Transfer from construction in progress	552,528	983,467	–	11,374	(1,547,369)	–
As at 31 December 2010	1,935,168	3,410,631	67,134	179,196	160,333	5,752,462
Exchange realignment	–	(154)	(72)	(120)	–	(346)
Eliminated on disposals	(25,166)	(40,079)	(14,583)	(9,403)	(5,044)	(94,275)
Additions	15,604	49,960	22,785	11,408	105,489	205,246
Additions on acquisition of a subsidiary	806	45	80	–	–	931
Transfer from construction in progress	78,517	62,291	–	5,032	(145,840)	–
As at 31 December 2011	**2,004,929**	**3,482,694**	**75,344**	**186,113**	**114,938**	**5,864,018**
Depreciation and impairment						
As at 1 January 2010	131,151	391,190	23,073	91,627	–	637,041
Exchange realignment	–	(92)	(40)	(77)	–	(209)
Eliminated on disposal of a subsidiary	(592)	(10)	–	(173)	–	(775)
Charge for the year	56,295	156,029	7,241	23,175	–	242,740
Eliminated on disposals	(219)	(7,685)	(2,417)	(4,846)	–	(15,167)
Impairment loss recognized in profit or loss	–	39,834	824	23	–	40,681
As at 31 December 2010	186,635	579,266	28,681	109,729	–	904,311
Exchange realignment	–	(154)	(67)	(122)	–	(343)
Charge for the year	87,943	276,908	10,377	21,990	–	397,218
Eliminated on disposals	(5,598)	(33,956)	(8,485)	(7,295)	–	(55,334)
Impairment loss recognized in profit or loss	7,353	73,246	–	724	–	81,323
As at 31 December 2011	**276,333**	**895,310**	**30,506**	**125,026**	**–**	**1,327,175**
Carrying values						
As at 31 December 2011	**1,728,596**	**2,587,384**	**44,838**	**61,087**	**114,938**	**4,536,843**
As at 31 December 2010	1,748,533	2,831,365	38,453	69,467	160,333	4,848,151

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

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

During the year, the directors conducted a review of the Group's manufacturing assets and determined that a number of those assets were impaired due to technical obsolescence. Accordingly, impairment losses of RMB73,246,000 (2010: RMB39,834,000) and RMB8,077,000 (2010: RMB847,000) have been recognized in respect of plant, machinery and equipment and other assets, which are used in the production segment.

16. PREPAID LEASE PAYMENTS

	2011 ***RMB'000***	2010 *RMB'000*
At the end of reporting period, the Group's prepaid lease payments comprise:		
Leasehold land in the PRC		
Long-term leases	**2,877**	2,931
Medium-term leases	**616,614**	544,726
	619,491	547,657
Analysis for reporting purposes as:		
Current assets	**13,380**	31,741
Non-current assets	**606,111**	515,916
	619,491	547,657

17. INVESTMENT PROPERTIES

	At 1 January 2010 and 31 December 2010 and 2011 *RMB'000*
Fair value	**14,600**

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

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

The fair value of the Group's investment properties at 31 December 2011 and 2010 have been determined on the basis of a valuation carried out on the respective dates 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.

18. GOODWILL

	2011 *RMB'000*	2010 *RMB'000*
COST		
At 1 January	**568,705**	579,258
Exchange adjustments	**(14,331)**	(10,553)
At 31 December	**554,374**	568,705
IMPAIRMENT		
At 1 January	**–**	–
Impairment loss recognized in the year	**(265,357)**	–
At 31 December	**(265,357)**	–
CARRYING AMOUNTS		
At 31 December 2011		**289,017**
At 31 December 2010		568,705

Details on impairment testing on goodwill are disclosed in Note 19.

19. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill has been allocated to the cash-generating units ("CGUs") of the related segments as follows:

	2011 RMB'000	2010 RMB'000
Sourcing and distribution	**257,225**	272,442
Production		
– Sinochem Pingyuan Chemical Company Limited ("Sinochem Pingyuan")	**–**	265,357
– Others	**31,792**	30,906
	289,017	568,705

In 2011, Sinochem Pingyuan continued to make significant loss. The directors of the Company considered there is indication that the goodwill allocated to Sinochem Pingyuan has been impaired.

Recoverable amounts of Sinochem Pingyuan have been determined on the basis of value in use calculations as at 30 June 2011. 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 used in the cashflow forecasts. Changes in revenue and direct costs are based on past practices and expectations of future changes in the market. The directors of the Company estimate discount rates of 10.40%, using pre-tax rates that reflect then market assessment of the time value of money and the risks specific relating to Sinochem Pingyuan. Cash flow forecasts are derived from financial budgets of 2012 approved by the directors of the Company. The purchase price of key raw materials applied in the production process of Sinochem Pingyuan has significantly increased in the first half of 2011, which attributed to higher direct production cost. However, the sales price of related products has been relatively stable and is expected to maintain at the level at that time. The growth rates for the first 3 years from 2013 is estimated to 7.00%, which is based on Sinochem Pingyuan's past performance and management's expectation for the market development, while the growth rates for the following years are steady.

Based on the results on the assessment of the recoverable amounts of Sinochem Pingyuan, during the period ended 30 June 2011, the Group recognized an impairment loss of approximately RMB265,357,000 (2010: nil) in relation to goodwill arising on acquisition of Sinochem Pingyuan.

The key assumptions used in the value in use calculation for related CGUs except for Sinochem Pingyuan include:

	Sourcing and distribution	Production
Discount rate	8.28%	10.40%
Average growth rate for the first three years from 2013	16%	16%
Steady growth rate for the following years	6.92%	6.92%

20. OTHER LONG-TERM ASSETS

	Activators
	RMB'000
COST	
At 1 January 2010	64,245
Additions	10,767
At 31 December 2010	75,012
Additions	6,532
At 31 December 2011	**81,544**
AMORTIZATION	
At 1 January 2010	20,072
Charge for the year	14,497
At 31 December 2010	34,569
Charge for the year	14,375
At 31 December 2011	**48,944**
CARRYING VALUES	
At 31 December 2011	**32,600**
At 31 December 2010	40,443

The activators have estimated useful lives ranging from 3 years to 10 years. The costs are amortized on a straight-line basis over their respective estimated useful lives.

21. INTERESTS IN ASSOCIATES

	2011 RMB'000	2010 RMB'000
At the end of reporting period, cost of investment in associates:		
Listed in the PRC	**6,799,615**	6,778,901
Unlisted	**199,192**	200,012
Share of profits, net of dividends	**755,628**	213,337
	7,754,435	7,192,250
Fair value of listed investments	**4,545,863**	9,399,957

As at 31 December 2011 and 2010, 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
					2011	2010	**2011**	2010	
Qinghai Salt Lake Industry Group Co., Ltd. 青海鹽湖工業股份有限公司	Incorporated	The PRC	The PRC	Ordinary	**8.94%**	18.49%	**23.95%**	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	The PRC	The PRC	Ordinary	**30%**	30%	**30%**	30%	Production and sales of phosphate rock
Qinghai Ganghua Logistics Co., Ltd 青島港華物流有限公司	Incorporated	The PRC	The PRC	Ordinary	**25%**	25%	**25%**	25%	Logistics services
Tianjin Beihai Industrial Co., Ltd. 天津北海實業有限公司	Incorporated	The PRC	The PRC	Ordinary	**30.9%**	30.9%	**30.9%**	30.9%	Logistics services
Yara Sinochem Environment Protection (Qingdao) Co., Ltd. 雅苒中化環保（青島）有限公司	Incorporated	The PRC	The PRC	Ordinary	**40%**	40%	**40%**	40%	Sales of fertilizers

21. INTERESTS IN ASSOCIATES (Continued)

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

	2011 *RMB'000*	2010 *RMB'000*
Total assets	**35,375,648**	10,906,762
Total liabilities	**(14,728,874)**	(5,001,442)
Net assets	**20,646,774**	5,905,320
Group's share of net assets of associates	**1,951,115**	1,146,512
Revenue	**8,625,908**	5,195,071
Profit for the year	**1,794,142**	1,003,850
Group's share of results of associates for the year	**201,261**	184,565

During the year, an associate of the Group, Qinghai Salt Lake Potash Co., Ltd. ("Qinghai Salt Lake") merged with Qinghai Salt Lake Industry Group Co., Ltd.("Salt Lake Group") (the "Merger"). Qinghai Salt Lake acquired the businesses of Salt Lake Group by issuance of new shares to the existing shareholders of Salt Lake Group in exchange of all the outstanding shares of Salt Lake Group. Upon completion of the Merger, the equity interest held by the Group in Qinghai Salt Lake decreased from 18.49% to 8.94% and Qinghai Salt Lake changed its name to Qinghai Salt Lake Industry Co., Ltd.

Upon the Merger, the intermediate holding company of the Company, Sinochem Corporation irrevocably assigned its voting right and right to nominate representation to the board of directors in Qinghai Salt Lake in respect of its 15.01% equity interest in Qinghai Salt Lake for free to the Group. Consequently, the Group maintained its significant influence over Qinghai Salt Lake after the Merger. The Group accounted for the reduction of equity interest in Qinghai Salt Lake resulted from the Merger as a deemed dilution in investment in an associate and recognized a gain of approximately RMB341,029,000 in the current year.

22. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Cost of unlisted investments in jointly controlled entities	**587,793**	507,793
Share of profits, net of dividends	**131,084**	81,693
	718,877	589,486

The summarized financial information in respect of the Group's interests in jointly controlled entities is set out as follows:

	2011	2010
	RMB'000	*RMB'000*
Financial position		
Non-current assets	**1,394,352**	1,176,883
Current assets	**1,036,752**	925,662
Non-current liabilities	**(357,991)**	(333,976)
Current liabilities	**(1,354,236)**	(1,179,083)
Net assets	**718,877**	589,486

	2011	2010
	RMB'000	*RMB'000*
Results for the year		
Revenue	**1,607,676**	1,655,481
Expenses	**1,522,223**	1,589,242

Details of the principal jointly controlled entities are set out in Note 41.

23. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Available-for-sale investments comprise:		
Listed equity securities	**77,405**	174,585
Unlisted equity securities	**97,252**	93,329
Less: impairment losses	**(1,290)**	(1,290)
	173,367	266,624

At the end of the reporting period, 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.

The unlisted equity securities, representing investments in private entities, are subsequently measured at cost less impairment at the end of each reporting period, 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.

In 2010, the Group disposed of 22.17% equity interest in Tianji Sinochem Gaoping Chemical Engineering Company Limited ("Tianji Sinochem Gaoping"), a company established in PRC. Before the disposal, the Group held 40% equity interests in Tianji Sinochem Gaoping and it was treated as a jointly controlled entity of the Group. After the disposal, the Group is no longer in a position to exercise either joint control or significant influence over Tianji Sinochem Gaoping. The investment in Tianji Sinochem Gaoping was measured at fair value at the time when the Group lost joint control over Tianji Sinochem Gaoping, with the resulting gain recognized in profit or loss. The fair value of RMB85,000,000 of the investment in Tianji Sinochem Gaoping at the date when the Group ceased to have joint control over Tianji Sinochem Gaoping is regarded as the fair value on initial recognition as an available-for-sale investment in accordance with HKAS 39.

24. INVENTORIES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Fertilizer merchandise and finished goods	**6,469,871**	4,561,327
Raw materials	**921,859**	532,514
Work in progress	**43,930**	35,005
Consumables	**28,454**	9,242
	7,464,114	5,138,088

25. TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**344,493**	62,020
Less: allowance for doubtful debts	**(61)**	(16,120)
	344,432	45,900
Bills receivables	**1,364,329**	3,013,984
Total trade and bills receivables	**1,708,761**	3,059,884

The Group allows a credit period of approximate 90 days to its trade customers. As at the end of the reporting period, the aging analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within three months	**339,398**	43,989
More than three months, but not exceeding six months	**2,980**	456
More than six months, but not exceeding one year	**742**	849
Exceeding one year	**1,312**	606
	344,432	45,900

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly. In the opinion of the management of the Group, receivables that are neither past due nor impaired have the best credit quality.

Included in the Group's trade receivables are debtors with aggregate carrying amount of RMB5,034,000 (2010: RMB1,911,000) which are past due at the end of the reporting period for which the Group has not provided for allowance for doubtful debts as there has not been a significant change in the credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of these receivables is 224 days (2010: 280 days).

25. TRADE AND BILLS RECEIVABLES (Continued)

The aged analysis of trade receivables which are past due but not impaired, is as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
More than three months, but not exceeding six months	**2,980**	456
More than six months, but not exceeding one year	**742**	849
Exceeding one year	**1,312**	606
Total	**5,034**	1,911

The movement in the allowance for doubtful debts is as follows:

	2011	2010
	RMB'000	*RMB'000*
Balance at 1 January	**16,120**	4,207
(Reversal of) allowance provided on trade receivables	**(16,008)**	11,913
Write-off of uncollectible trade receivables	**(51)**	–
Balance at 31 December	**61**	16,120

Regarding to the allowance for doubtful debts are individually impaired trade receivables with an aggregated balance of RMB61,000 (2010: RMB16,120,000) which have been past due for a prolonged period and the directors of the Company are of the opinion that these receivables are unrecoverable.

The following is an aged analysis of bills receivables, which are not past due nor impaired at the end of the reporting period:

	2011	2010
	RMB'000	*RMB'000*
Within three months	**928,543**	705,802
More than three months, but not exceeding six months	**435,786**	2,308,182
	1,364,329	3,013,984

26. OTHER DEPOSITS

Other deposits represent principal-protected financial products issued by financial institutions in the PRC, which carried fixed interest rates from 1.50% to 7.00% (2010: 1.5%) per annum. Included in other deposits as at 31 December 2011, balances of approximately RMB650,000,000 (2010: nil) were restricted and can only be withdrawn until maturity. The directors of the Company consider the other deposits as a current asset since the maturity dates are all within one year at the end of the reporting period.

27. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Pledged bank deposits

The pledged bank deposits have been placed in designated banks as collaterals for short-term banking facilities granted to the Group. The deposits carry prevailing deposit rate of 0.50% (2010: 0.36%) per annum at 31 December 2011.

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 deposit rates ranging from 0.95% to 3.10% (2010: 0.81% to 2.25%) 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 relevant entity to which they relate.

	2011	2010
	RMB'000	*RMB'000*
United States dollars ("US$")	**2,545**	229

28. TRADE AND BILLS PAYABLES

As at 31 December 2011, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	2011	2010
	RMB'000	*RMB'000*
Within three months	**4,824,863**	2,161,941
More than three months, but not exceeding six months	**210,452**	260,009
More than six months, but not exceeding one year	**392,660**	34,088
Exceeding one year	**103,654**	119,769
	5,531,629	2,575,807

29. 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 holders have the option to convert the notes 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 by the Company for redemption before 7 August 2011 (maturity date), then the holders have the option 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 is adjusted to HK$3.64 on 10 June 2009 (details are disclosed in the announcement dated 15 June 2009 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 by the holder. 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 according to the convertible loan notes adjustments.

The convertible loan notes contain liability component stated at amortized cost, and conversion option, holders' redemption option and issuer's 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 the 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%.

During the year, convertible loan notes with face value of HK$350,000 were converted into 96,153 ordinary shares of HK$0.10 each and the remaining notes with face value of HK$621,150,000 were redeemed at maturity for a cash consideration of approximately HK$790,290,000, equivalent to approximately RMB656,572,000.

29. CONVERTIBLE LOAN NOTES (Continued)

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 2010	626,240	149,175
Interest charge	42,255	–
Changes in fair value	–	(98,327)
Exchange realignment	(22,009)	(2,790)
As at 31 December 2010	646,486	48,058
Interest charge	25,725	–
Changes in fair value	–	(46,923)
Exchange realignment	(15,271)	(1,135)
Conversion to ordinary shares	(368)	–
Redemption by cash	(656,572)	–
As at 31 December 2011	**–**	**–**

30. BORROWINGS

	As at 31 December	
	2011 *RMB'000*	2010 *RMB'000*
Bank loans, secured	**–**	119,794
Bank loans, unsecured	**2,939,931**	3,967,479
Bonds *(note)*		
Principal amount	**2,500,000**	2,500,000
Less: unamortized transaction costs	**(18,565)**	(20,915)
	5,421,366	6,566,358

Note: On 25 November 2009, a PRC subsidiary issued corporate bonds with an aggregate principal amount of RMB2.5 billion with a maturity of 10 years at a fixed interest rate of 5% per annum. The transaction costs of RMB23,265,000 directly attributable to issuance of the bonds have been deducted from the principal amount of the bonds. The repayment of the bonds is guaranteed by Sinochem Group.

30. BORROWINGS (Continued)

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Carrying amount repayable:		
Within one year	**2,349,358**	2,993,369
More than one year, but not exceeding two years	**239,000**	568,904
More than two years, but not exceeding five years	**344,300**	515,000
Exceeding five years	**2,488,708**	2,489,085
	5,421,366	6,566,358
Less: Amounts due within one year shown under current liabilities	**(2,349,358)**	(2,993,369)
Amounts shown under non-current liabilities	**3,072,008**	3,572,989

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

	2011	2010
	RMB'000	*RMB'000*
Fixed-rate borrowings:		
Within one year	**627,635**	149,794
More than one year, but not exceeding two years	**159,000**	108,904
More than two years, but not exceeding five years	**–**	84,000
Exceeding five years	**2,488,708**	2,489,085
	3,275,343	2,831,783

30. BORROWINGS (Continued)

The exposure and contractual maturity dates of the Group's variable-rate borrowings are as follows:

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Variable-rate borrowings:		
Within one year	**1,721,723**	2,843,575
More than one year, but not exceeding two years	**80,000**	460,000
More than two years, but not exceeding five years	**344,300**	431,000
	2,146,023	3,734,575

Interests on variable-rate borrowings are repriced in accordance with specific terms in the borrowing contracts.

The ranges of effective interest rates on the Group's borrowings are as follows:

	2011	2010
Effective interest rates:		
Fixed-rate borrowings	**2.550% to 6.405%**	2.550% to 5.760%
Variable-rate borrowings	**1.248% to 7.050%**	0.683% to 5.940%

As at the end of the reporting period, the Group has the following unutilized banking facilities:

	2011	2010
	RMB'000	*RMB'000*
Variable-rate borrowing facilities		
– expiring within one year	**26,144,168**	21,459,229
– expiring beyond one year	**6,835,000**	12,560,441
	32,979,168	34,019,670

At 31 December 2011, certain property, plant and equipment with carrying values of approximately RMB19,020,000 (2010: RMB171,516,000) were pledged to secure banking facilities granted to the Group. As at 31 December 2011, no banking facilities were utilised.

31. ISSUED EQUITY

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

	2011 *RMB'000*	2010 *RMB'000*
At 1 January	**8,260,977**	8,248,928
Issue of new shares of par value of HK$0.10 each:		
Conversion of convertible loan notes	**368**	–
Exercise of share options	**2,973**	12,049
At 31 December	**8,264,318**	8,260,977

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 2010 and 2011, which included share capital and share premium in the consolidated statement of financial position, represented the amount of issued equity of the legal subsidiary, China Fertilizer (Holdings) Company Limited, immediately before the acquisition of HK$78,000, the deemed cost of acquisition of the property group of HK$285,363,000, and the issue of new shares, shares upon exercise of share options and additional shares from conversion of the convertible loan notes, after deducting the costs of issuing the new shares.

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

	Number of shares *'000*	**Nominal value** *HK$'000*	**Equivalent to** *RMB'000*
Ordinary shares			
Authorized:			
Ordinary shares of HK$0.10 each at 1 January 2010 and 31 December 2010 and 2011	80,000,000	8,000,000	
Issued and fully paid:			
Ordinary shares of HK$0.10 each at 1 January 2010	7,015,351	701,535	690,974
Exercise of options	5,556	556	484
Ordinary shares of HK$0.10 each at 31 December 2010	7,020,907	702,091	691,458
Conversion of convertible loan notes	96	10	8
Exercise of options	1,683	168	140
Ordinary shares of HK$0.10 each at 31 December 2011	7,022,686	702,269	691,606

31. ISSUED EQUITY (Continued)

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

	Number of shares	Nominal value HK$'000
Preference shares		
Authorized:		
Preference shares of HK$1,000,000 each	316	316,000

No preference shares are issued at 31 December 2011 and 2010.

32. DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purpose:

	As at 31 December	
	2011 *RMB'000*	2010 *RMB'000*
Deferred tax assets	**756,462**	868,894
Deferred tax liabilities	**(59,040)**	(54,048)
	697,422	814,846

32. DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (Continued)

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

	Revaluation of available-for-sale investments	Fair value adjustment on business combination	Unrealized profits in inventories	Impairments	Tax losses	Accumulated depreciation difference	Other	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2010	1,635	(70,185)	22,050	194,199	671,621	4,831	2,615	826,766
Credit (charge) to profit or loss for the year	–	6,622	(17,275)	(160,605)	149,760	8,413	3,486	(9,599)
Credit to other comprehensive income for the year	(420)	–	–	–	–	–	–	(420)
Disposal of a subsidiary *(Note 43)*	–	–	–	–	(1,901)	–	–	(1,901)
At 31 December 2010	1,215	(63,563)	4,775	33,594	819,480	13,244	6,101	814,846
Credit (charge) to profit or loss for the year	–	4,523	8,041	13,568	(135,806)	(13,010)	6,475	(116,209)
Credit to other comprehensive income for the year	(1,215)	–	–	–	–	–	–	(1,215)
At 31 December 2011	**–**	**(59,040)**	**12,816**	**47,162**	**683,674**	**234**	**12,576**	**697,422**

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 tax losses amounting to approximately RMB2,734,688,000 (2010: RMB3,278,658,000) that can be carried forward against taxable income in the coming five years. Tax loss expired in current year amounting to approximately RMB833,000 (2010: Nil). No deferred tax assets were recognized on the remaining tax losses of approximately RMB943,459,000 (2010: RMB793,694,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable. Included in the unrecognized tax losses are losses of RMB411,839,000 that will expire before 31 December 2016 (2010: RMB242,662,000 that will expire before 31 December 2015). Other losses may be carried forward indefinitely.

By reference to financial budgets, the management of the Company believes that there will be sufficient future taxable profits or taxable temporary differences available in the future for the realisation of deferred tax assets which have been recognized in respect of tax losses and other temporary differences.

Under the tax laws of the PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries to overseas investors from 1 January 2008 onwards. As the Company controls the dividend policy of its PRC subsidiaries, it has the ability 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 its PRC subsidiaries will not be distributed to overseas investors in the foreseeable future. As such, deferred taxation has not been provided for in respect of temporary differences attributable to accumulated profits of PRC subsidiaries of RMB53,980,000 (2010: RMB47,860,000) at 31 December 2011.

33. 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 Share 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 the 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 entities 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 granted are exercisable on or after 23 January 2008, and the remaining share options granted are exercisable on or after 23 January 2009. All unexercised share options were expired on 23 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 Company and its subsidiaries, and the invested entities. The New Share Option Scheme also expressly provides that, the board of directors 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.

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; (ii) 16.7% of the share options granted are exercisable on or after 28 August 2010; and (iii) if the total accumulated basic earnings per share of the Company for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 is more than HK$0.674, 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. Since the total accumulated basic earnings per share of the Company for the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009 was less than HK$0.674, 50% of the share options granted were forfeited. All unexercised share options will expire on 28 August 2013.

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

New Share Option Scheme (Continued)

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 2011, the number of shares in respect of which options had been granted and remained outstanding was 4,636,228 (2010: 6,891,528), representing 0.07% (2010: 0.10%) of the shares of the Company in issue as at 31 December 2011. The total number of option shares available for granting under the New Share Option Scheme at 31 December 2011 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.

As at 31 December 2011, the details of the outstanding share options granted under the share option schemes are as follows:

Grantees	Date of grant	Exercisable period	Exercise price	Number of options
			HK$	
Mr. LIU De Shu *(note a)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,900
	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Mr. Harry YANG *(note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	600
	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Employees	23 January 2006	23 January 2008 to 22 January 2012	1.672	2,103,000
	28 August 2007	28 August 2009 to 27 August 2013	4.990	1,772,728
Other eligible participants	28 August 2007	28 August 2009 to 27 August 2013	4.990	338,000
				4,636,228

33. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Equity-settled share option scheme (Continued)

As at 31 December 2010, the details of the outstanding share options granted under the share option schemes are as follows:

Grantees	Date of grant	Exercisable period	Exercise price	Number of options
			HK$	
Mr. LIU De Shu *(note a)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	1,900
	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Mr. DU Ke Ping *(note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	609,900
(resigned on 15 July 2010)	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Mr. Harry YANG *(note b)*	23 January 2006	23 January 2008 to 22 January 2012	1.672	600
	28 August 2007	28 August 2009 to 27 August 2013	4.990	210,000
Mr. Wade FETZER III *(note a)*	28 August 2007	28 August 2009 to 27 August 2013	4.990	128,000
Employees	23 January 2006	23 January 2008 to 22 January 2012	1.672	3,178,400
	28 August 2007	28 August 2009 to 27 August 2013	4.990	2,214,728
Other eligible participants	28 August 2007	28 August 2009 to 27 August 2013	4.990	128,000
				6,891,528

Notes:

a. Non-Executive Director of the Company

b. Executive Director of the Company

33. 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	Vesting period	Exercise period	Exercise price
Old Share Option Scheme	23 January 2006	23 January 2006 to 22 January 2009	23 January 2008 to 22 January 2012	HK$1.672
New Share Option Scheme	28 August 2007	28 August 2007 to 27 August 2010	28 August 2009 to 27 August 2013	HK$4.990

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

	Outstanding at 1 January	Granted during the year	Lapsed during the year	Exercised during the year	Outstanding at 31 December
2011	**6,891,528**	**–**	**(572,000)**	**(1,683,300)**	**4,636,228**
Exercisable at the end of the year					**4,636,228**
Weighted average exercise price	**HK$3.165**	**–**	**HK$4.978**	**HK$1.672**	**HK$3.483**
2010	20,297,468	–	(7,850,650)	(5,555,290)	6,891,528
Exercisable at the end of the year					6,891,528
Weighted average exercise price	HK$3.012	–	HK$3.646	HK$1.928	HK$3.165

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise is HK$3.17 (2010: HK$4.78).

The Group recognized no expense (2010: RMB323,000) for the year ended 31 December 2011 in relation to share options granted by the Company.

34. 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 previous year.

The capital structure of the Group consists of net debt including convertible loan notes and borrowings, net of cash and cash equivalents and equity attributable to owners of the Company comprising issued equity, retained profits and other reserves.

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.

35. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2011	2010
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including pledged bank deposits, cash and cash equivalents and other deposits)	**3,847,093**	3,490,702
Available-for-sale investments	**173,367**	266,624
Financial liabilities		
Derivative financial instruments	**–**	48,058
At amortized cost	**11,326,538**	10,082,435

(b) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, other deposits, trade and bills receivables, other receivables, bank balances and cash, trade and bills payables, other payables, convertible loan notes, derivative financial instruments 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 significant 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.

35. FINANCIAL INSTRUMENTS (Continued)

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

Market risk

(i) Currency risk

Several subsidiaries of the Group have foreign currency transactions, which expose the Group to currency risk. Since the monetary items denominated in foreign currencies are not significant, the Group considers the currency risk was 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.

The carrying amounts of the foreign currency denominated monetary assets and monetary liabilities including bank balances and cash, other payables and borrowings that are subject to currency risk at the end of the reporting period are as follows:

	Liabilities		Assets	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**27,587**	30,153	**2,545**	358

Sensitivity analysis

The Group is mainly exposed to the risk of fluctuations in the United States dollars ("US$").

Since the foreign currency denominate monetary assets and monetary liabilities are not significant, the management considers the Group is not sensitive to the change of exchange rate of functional currency of relevant entities against US$. Accordingly, no sensitivity analysis about currency risk is prepared.

35. 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 Note 30 for details of these borrowings) and other deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see Note 30 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 management 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 the fluctuation of London Interbank Offered Rate.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for variable-rate bank borrowings at the end of the reporting period. For variable-rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points (2010: 100 basis points) increase or decrease is used and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2010: 100 basis points) higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2011 would decrease/increase by approximately RMB15,953,000 (2010: approximately RMB29,172,000). This is mainly attributable to the Group's exposure to change in interest rates on its variable-rate bank borrowings.

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable-rate borrowings.

35. 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. 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 Singapore Exchange Limited. The directors of the Company closely monitor the share price movements of those securities relating to the investments in order to minimize the Group's exposure to the price risk.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to equity price risks at the end of the reporting period.

Available-for-sale investments

If the prices of the respective listed equity instruments had been 10% (2010: 10%) higher/lower:

- investment valuation reserve/impairment losses would increase by approximately RMB7,741,000 (2010: RMB16,894,000) as a result of the increase/decrease in fair value of available-for-sale investments.

35. 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 2011 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. 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 the end of each reporting period 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 and other deposits 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 credit borrowings.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2011, the Group has available unutilized bank loan facilities of approximately RMB32,979,168,00 (2010: RMB34,019,670,000). Details are set out in Note 30.

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 maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest rates are variable rates, the undiscounted amount is derived from interest rate at the end of the reporting period.

35. FINANCIAL INSTRUMENTS (Continued)

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

Liquidity risk (Continued)

Liquidity tables

2011

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2011
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities								
Trade and bills payables	–	706,766	4,824,863	–	–	–	5,531,629	5,531,629
Borrowings								
– fixed rate	5.12	69,303	187,019	518,864	658,103	2,842,063	4,275,352	3,275,343
– variable rate	2.90	1,440,164	133,683	185,653	466,500	–	2,226,000	2,146,023
Other payables	–	373,543	–	–	–	–	373,543	373,543
		2,589,776	5,145,565	704,517	1,124,603	2,842,063	12,406,524	11,326,538

2010

	Weighted average interest rate	On demand or less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total undiscounted cash flows	Carrying amount at 31 December 2010
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Financial liabilities								
Trade and bills payables	–	413,866	2,161,941	–	–	–	2,575,807	2,575,807
Borrowings								
– fixed rate	5.13	16,618	82,503	187,422	703,932	2,973,819	3,964,294	2,831,783
– variable rate	2.90	908,663	1,432,071	567,336	955,498	–	3,863,568	3,734,575
Other payables	–	293,784	–	–	–	–	293,784	293,784
Convertible loan notes *(Note)*	4.93	–	–	672,836	–	–	672,836	694,544
		1,632,931	3,676,515	1,427,594	1,659,430	2,973,819	11,370,289	10,130,493

Note: The undiscounted cash flows of convertible loan notes represent the redemption amount upon maturity of convertible loan notes. The carrying amount of convertible loan notes represents the total carrying amount of the liability and derivative components as at year end.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

35. 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
- the fair value of an option-based derivative is estimated using option pricing model (for example, the binomial option pricing model); and
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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:

	2011		2010	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial liabilities				
Convertible loan notes (Liability component)	**–**	**–**	646,486	647,484
Bonds	**2,481,435**	**2,194,563**	2,479,085	2,266,031

Fair value measurements recognized in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to Level 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from inputs for the asset or liability that are not based on observable market data (unobservable inputs).

35. FINANCIAL INSTRUMENTS (Continued)

(c) Fair value (Continued)

Fair value measurements recognized in the consolidated statement of financial position (Continued)

	31 December 2011			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Listed available-for-sale investments	**77,405**	**–**	**–**	**77,405**
Total	**77,405**	**–**	**–**	**77,405**

	31 December 2010			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Listed available-for-sale investments	174,585	–	–	174,585
Derivative financial instruments	–	–	48,058	48,058
Total	174,585	–	48,058	222,643

Reconciliation of Level 3 fair value measurements of derivative financial instruments:

	2011	2010
	RMB'000	*RMB'000*
Derivatives		
At 1 January	**48,058**	149,175
Changes in fair value recognized in profit or loss	**(46,923)**	(98,327)
Exchange differences	**(1,135)**	(2,790)
At 31 December	**–**	48,058

Of the total gains for the year included in profit or loss, nil (2010: RMB98,327,000) relates to derivative financial instruments held at the end of the reporting period. Fair value gains on derivative financial instruments are included in changes in fair value of derivative financial instruments.

36. CONTINGENT LIABILITIES

At 31 December 2011 and 2010, the Group had no material contingent liabilities.

37. CAPITAL COMMITMENTS

	2011	2010
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition project, property, plant and equipment:		
Contracted but not provided for	**19,085**	26,117
Authorized but not contracted for	**2,095,810**	1,848,543
	2,114,895	1,874,660

38. OPERATING LEASES

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	2011	2010
	RMB'000	*RMB'000*
Within one year	**1,013**	789
More than one year, but not exceeding five years	**246**	620
	1,259	1,409

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 market price.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2011	2010
	RMB'000	*RMB'000*
Within one year	**77,688**	72,519
More than one year, but not exceeding five years	**17,920**	11,975
Exceeding five years	**4,680**	5,677
	100,288	90,171

Operating lease payments represent rentals payable by the Group for certain of retail outlets, offices and warehouses. Leases are normally negotiated for an average term of 1-2 years and rentals are fixed for an average of 1-2 years.

39. RELATED PARTY TRANSACTIONS

The related parties that had transactions with the Group during the year ended 31 December 2011 and 2010 were as follows:

Fellow subsidiaries

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

Beijing Chemsunny Property Co., Ltd. (“Chemsunny Ltd.”)
(北京凱晨置業有限公司)

Holding company

Sinochem Hong Kong (Group) Company Limited. (“Sinochem HK”)
(中化香港（集團）有限公司)

Jointly controlled entities

Yunnan Three Circle-Sinochem-Mosaic Fertilizer Co., Ltd. (“Sinochem Mosaic”)
(雲南三環中化美盛化肥有限公司)
(Formerly known as “Yunnan Three Circle-Sinochem-Cargill Fertilizer Co., Ltd.
雲南三環中化嘉吉化肥有限公司”)

Yunnan Three-Circle Sinochem Fertilizer Co., Ltd. (“Yunnan Three-Circle”)
(雲南三環中化化肥有限公司)

Gansu Wengfu Chemical Co., Ltd. (“Gansu Wengfu”)
(甘肅甕福化工有限責任公司)

Guiyang Sinochem Kailin Fertilizer Co., Ltd. (“Sinochem Kailin”)
(貴陽中化開磷化肥有限公司)

Tianji Sinochem Gaoping
(天脊中化高平化工有限公司) (disposed in 2010)

Associates

Qinghai Salt Lake Industry Co., Ltd. (“Salt Lake Industry”)
(青海鹽湖工業股份有限公司)

Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. (“Guizhou Xinxin”)
(貴州鑫新工農貿易有限公司)

Yara Sinochem Environmental Protection (Qingdao) Limited (“Yara Sinochem”)
(雅苒中化環保（青島）有限公司)

A subsidiary of a shareholder with significant influence over the Company

PCS Sales (USA) Inc. (“PCS Sales”)

39. RELATED PARTY TRANSACTIONS (Continued)

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

	2011 RMB'000	2010 RMB'000
Sales of fertilizers to		
Sinochem Group *(note)*	**140,195**	154
Gansu Wengfu	**213,065**	–
Yara Sinochem	**2,111**	1,468
Yunnan Three-Circle	**82,373**	–
	437,744	1,622
Purchases of fertilizers from		
Sinochem Group *(note)*	**213,046**	228,602
Salt Lake Industry	**500,153**	182,537
Tianji Sinochem Gaoping	**–**	424,179
Yunnan Three-Circle	**720,310**	750,764
Gansu Wengfu	**369,442**	313,308
Guizhou Xinxin	**98,453**	60,021
Sinochem Mosaic	**25,211**	11,301
PCS Sales *(note)*	**7,463**	330,362
	1,934,078	2,301,074
Import service fee paid to		
Sinochem Group *(note)*	**3,787**	191
Sinochem (United Kingdom) Limited *(note)*	**12,924**	11,490
	16,711	11,681
Office rental fee paid to		
Chemsunny Ltd. *(note)*	**17,715**	15,536

Note: The transactions fall under definition of "continuing connected transaction" in Chapter 14A of the Listing Rules.

39. RELATED PARTY TRANSACTIONS (Continued)

(b) At the end of the reporting period, the Group has the following balances with its related parties:

	2011 *RMB'000*	2010 *RMB'000*
Advance payments to suppliers		
Guizhou Xinxin	**44,851**	–
Salt Lake Industry	**3,580**	361,545
Gansu Wengfu	**26,604**	38,148
Sinochem Mosaic	**7,587**	–
	82,622	399,693
Trade payables		
Sinochem Group	**2,404,307**	58,847
Yunnan Three-Circle	**52,372**	30,881
PCS Sales	**421**	64,995
	2,457,100	154,723
Other receivables		
Sinochem Kailin	**11,245**	10,153
Chemsunny Ltd.	**4,273**	4,281
Sinochem Group	**1,609**	–
Yunnan Three-Circle	**39**	–
	17,166	14,434
Other payables		
Sinochem Group	**2,475**	216
Borrowings		
Sinochem HK	**1,234,976**	–

(c) Compensation of key management personnel

Key management personnel include solely the directors of the Company and compensation paid to them is disclosed in Note 11. The remuneration is determined by the remuneration committee of the Company having regard to the performance of each individual and market trends.

39. RELATED PARTY TRANSACTIONS (Continued)

(d) Transactions/balances with other state-controlled entities in the PRC

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

At the end of the reporting period, the Group had the following significant balances with other government-related entities in the PRC.

	2011	2010
	RMB'000	*RMB'000*
Trade and bills receivables	**432,398**	714,804
Advance payments to suppliers and other receivables	**351,203**	188,488
Trade and bills payables	**389,586**	67,019
Receipts in advance and other payables	**379,607**	113,655

During the year, the Group had the following significant transactions with other government-related entities as follows:

	2011	2010
	RMB'000	*RMB'000*
Sales of fertilizers	**3,918,669**	2,734,999
Purchase of fertilizers	**7,946,972**	4,348,915

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks that are government-related 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, the directors of the Company are of the opinion that transactions with other government-related entities are not significant to the Group's operations.

40. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2011 and 2010:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group 2011	2010	Principal activities
Directly held:					
China Fertilizer (Holdings) Co., Ltd.	British Virgin islands ("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 Co., Ltd. (中化化肥有限公司) *(note a)*	The 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 SAR	MOP100,000	**100%**	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Co., Ltd. *(note c)* (綏芬河新凱源貿易有限公司)	The PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. *(note c)* (福建中化智勝化肥有限公司)	The PRC	RMB47,000,000	**53.19%**	53.19%	Sales and manufacturing of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. *(note c)* (中化重慶涪陵化工有限公司)	The PRC	RMB148,000,000	**60%**	60%	Sales and manufacturing of fertilizers
Sinochem Yantai Crop Nutrition Co., Ltd. *(note b)* (煙台中化作物營養有限公司) *(note e)*	The PRC	US$1,493,000	**100%**	51%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Co., Ltd. *(note c)* (滿洲裏凱明化肥有限公司)	The PRC	RMB5,000,000	**100%**	100%	Fertilizer trading

40. PRINCIPAL SUBSIDIARIES (Continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2011	2010	
Indirectly held: (Continued)					
Sinochem Pingyuan Chemical Co., Ltd. *(note c)* (中化平原化工有限公司)	The PRC	RMB300,000,000	**75%**	75%	Sales and manufacturing of fertilizers
Sinochem Jilin Changshan Chemical Co., Ltd. *(note c)* (中化吉林長山化工有限公司)	The PRC	RMB589,590,000	**90.81%**	90.81%	Sales and manufacturing of fertilizers
Hubei Sinochem Orient Fertilizer Co., Ltd. *(note c)* (湖北中化東方肥料有限公司)	The PRC	RMB30,000,000	**80%**	80%	Sales and manufacturing of fertilizers
Sinochem Shandong Fertilizer Co., Ltd. *(note c)* (中化山東肥業有限公司)	The PRC	RMB100,000,000	**51%**	51%	Sales and manufacturing of fertilizers
Sinochem Fert-Mart Agricultural Superstore Co., Ltd. *(note c)* (中化肥美特農資連鎖有限公司)	The PRC	RMB100,000,000	**100%**	100%	Fertilizers retailing
Sinochem Ningxia Chemical Co., Ltd. *(note c)* (中化寧夏化工有限公司)	The PRC	RMB160,000,000	**100%**	100%	Sales and manufacturing of fertilizers
Sinochem Hainan Crop Science and Technology. *(note c) (note d)* (中化海南作物科技有限公司)	The PRC	RMB200,000,000	**100%**	N/A	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 affected 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.

None of the subsidiaries had issued any debt securities at the end of the year.

Notes a: Foreign invested enterprise

Notes b: Sino-foreign enterprise

Notes c: Domestic company

Notes d: Established in 2011

Notes e: Acquisition of non-controlling interests in 2011

41. PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the principal jointly controlled entities of the Group as at 31 December 2011 and 2010:

Name of jointly controlled entities	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group	Principal activities
			(Note a)	
Indirectly held:				
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Co., Ltd. (天津北方化肥物流配送有限公司) *(note b)*	The PRC	RMB3,000,000	60%	Fertilizer logistics
Yunnan Three Circle-Sinochem-Mosaic Fertilizer Co., Ltd. (雲南三環中化美盛化肥有限公司)	The PRC	US$29,800,000	25%	Sales and manufacturing of fertilizers
Yunnan Three-Circle Sinochem Fertilizer Co., Ltd. (雲南三環中化化肥有限公司) *(note c)*	The PRC	RMB1,400,000,000	40%	Sales and manufacturing of fertilizers
Gansu Wengfu Chemical Co., Ltd. (甘肅甕福化工有限責任公司)	The PRC	RMB181,100,000	30%	Sales and manufacturing of fertilizers

Notes:

a. 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.

b. In accordance with agreements between the investors, the investors exercise joint control over the entity.

c. In 2011, the Group made an additional investment amounting to RMB80,000,000 to Yunnan Three-Circle.

42. RETIREMENT BENEFITS SCHEME CONTRIBUTION

According to the relevant laws and regulations in the PRC Mainland, Hong Kong and Macao SAR, the Company's certain subsidiaries are required to participate in a defined contribution retirement scheme administrated by the local municipal government. The 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 schemes.

43. ACQUISITION/DISPOSAL OF A SUBSIDIARY

(a) Jilin Songyuan Yinhe Economic and Technological Development Company Limited Yinhe Sanjiang Gas Station

In July 2011, the Group acquired 100% of issued equity of Jilin Songyuan Yinhe Economic and Technological Development Company Limited Yinhe Sanjiang Gas Station ("Yinhe Gas station") for no consideration. This acquisition has been accounted for using the acquisition method. No goodwill recognized in the acquisition. Yinhe Gas station is engaged in the sales of refined oil.

Assets acquired and liabilities recognized at the date of acquisition are as follows:

	RMB'000
Property, plant and equipment	**931**
Inventories	**564**
Trade and other receivables	**324**
Bank balances and cash	**350**
Advance payments and other receivables	**95**
Trade and other payable	**(260)**
Receipts in advance and other payables	**(2,004)**
	–

Net cash inflow on acquisition of Yinhe Gas station:

	RMB'000
Cash and cash equivalent balance acquired	**350**
	350

43. ACQUISITION/DISPOSAL OF A SUBSIDIARY (Continued)

(b) Pingyuan County Xianglong Paper Co., Ltd.

On 31 December 2010, the Group disposed of its 100% owned subsidiary, Pingyuan County Xianglong Paper Co., Ltd. 平原縣翔龍紙業有限公司 ("Xianglong"). The net liabilities of Xianglong, at the date of disposal, are as follows:

	31 December 2010 *RMB'000*
Consideration for the disposal *(note):*	37,000
Total consideration to be paid	37,000
Analysis of assets and liabilities over which control was lost:	
Deferred tax assets	1,901
Property, plant and equipment	210,509
Current assets	9,178
Current liabilities	(309,850)
Net liabilities disposed of	(88,262)
Gain on disposal of a subsidiary:	
Consideration to be paid	37,000
Net liabilities disposed of	(88,262)
Gain on disposal	(51,262)
Net cash outflow arising on disposal:	
Cash consideration	–
Less: bank balances and cash disposed of	(1)
	(1)

Note: The Group disposed of Xianglong to Shandong Pingyuan Economic Development and Investment Co. Ltd., the non-controlling interest of a subsidiary of the Company by paying a consideration of RMB37,000,000. In 2010, both parties agreed to settle the consideration by a waiver of other payables from Xianglong to the Group.

44. EVENT AFTER THE REPORTING PERIOD

On 8 January 2012, the Group entered into a share purchase agreement (the "Agreement") to acquire 100% interests in Xundian Lomon Phosphorus Chemical Co., Ltd. 尋甸龍蟒磷化工有限責任公司 ("Xundian Lomon") with a consideration of RMB1,380,000,000. The details of the Agreement were included in the announcement of the Company dated 9 January 2012. According to the Agreement, the consideration should be settled in instalments. The first instalment of RMB250,000,000 and the second instalment of RMB250,000,000 have been paid up to the date of this report. Up to the date of this report, Xundian Lomon completed its amendments to the business registration documents, accordingly, Xundian Lomon becomes a subsidiary of the Group. On 19 March 2012, Xundian Lomon changed its name to Sinochem Yunlong Chemical Co., Ltd. 中化雲龍化工有限公司.

45. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period includes:

	2011 ***RMB'000***	2010 *RMB'000*
Investments in subsidiaries	**6,188,202**	6,495,055
Amount due from subsidiaries	**5,898,596**	6,903,288
Other non-current assets	**78,998**	153,667
Bank balances and cash	**5,895**	7,526
Other current assets	**643,492**	742,200
Total assets	**12,815,183**	14,301,736
Current liabilities	**13,709**	711,277
Total equity	**12,801,474**	13,590,459

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(restated)
Revenue	**36,684,963**	29,271,077	27,010,709	45,392,885	28,381,689
Profit (loss) before tax	**836,501**	482,862	(2,149,096)	2,084,237	978,294
Income tax (expense) credit	**(150,717)**	(481)	683,127	(176,430)	(316,400)
Profit (loss) for the year	**685,784**	482,381	(1,465,969)	1,907,807	661,894
Attributable to					
Owners of the Company	**677,968**	535,711	(1,443,813)	1,912,555	641,142
Non-controlling interests	**7,816**	(53,330)	(22,156)	(4,748)	20,752
	685,784	482,381	(1,465,969)	1,907,807	661,894

	At 31 December				
	2011	2010	2009	2008	2007
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
					(restated)
Total assets	**28,398,490**	25,444,563	25,291,151	30,125,080	17,617,314
Total liabilities	**(15,029,607)**	(12,510,529)	(12,756,113)	(15,754,715)	(9,854,532)
Net assets	**13,368,883**	12,934,034	12,535,038	14,370,365	7,762,782

中化化肥控股有限公司
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