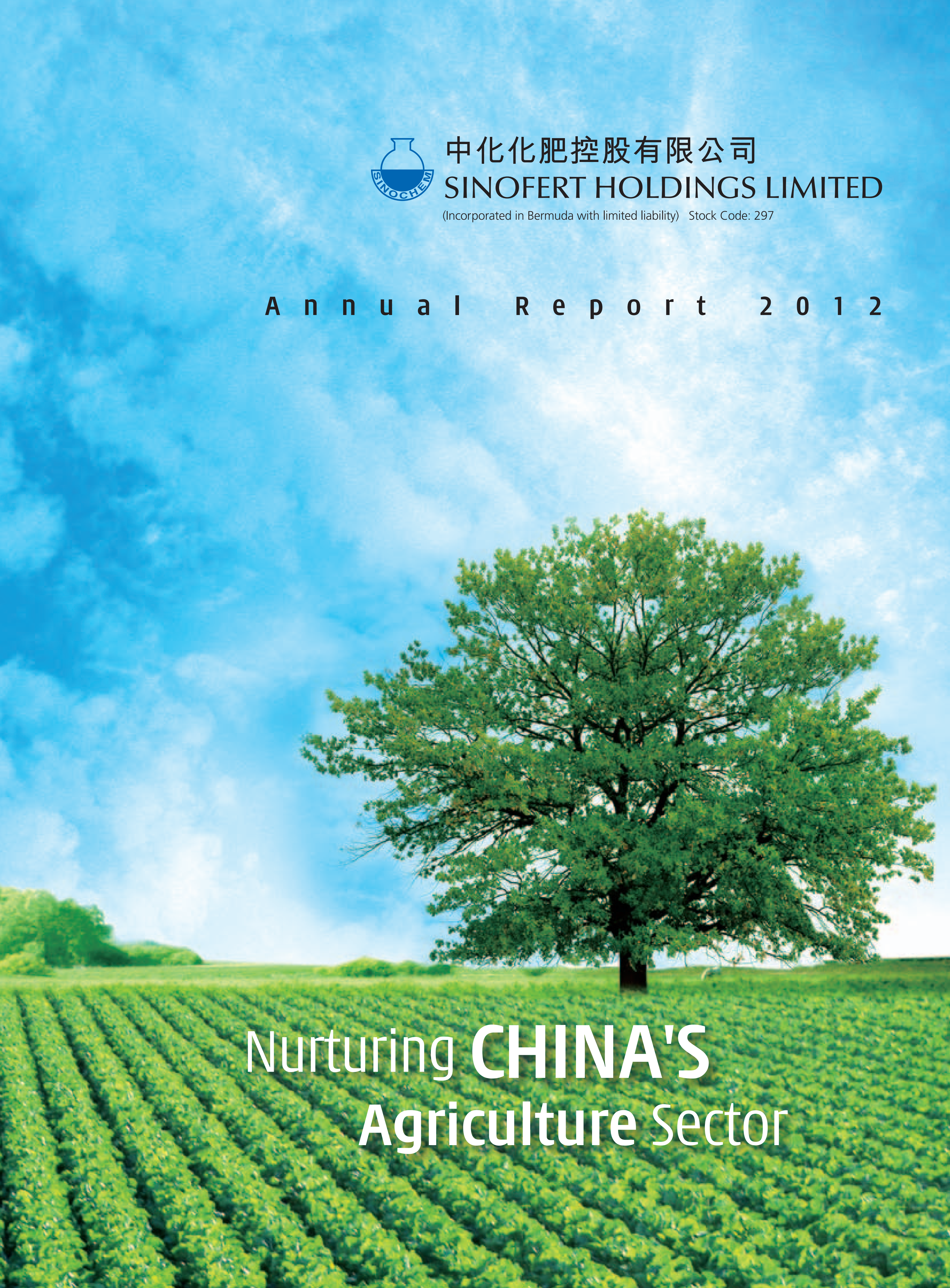


中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

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

Annual Report 2012

Nurturing CHINA'S Agriculture Sector

SINOFERT HOLDINGS LIMITED

2012
ANNUAL REPORT

CONTENTS

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 (Stock code: 297). 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 technical research and development and services in the field of fertilizer-related business and products.

Benchmarked by the turnover of 2012, the Group is:

- the largest fertilizer distribution service provider in China;
- the largest supplier of imported fertilizers in China;
- 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 distribute 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 of their products in China;
- its comprehensive agrichemical services system directly reaching the farmers;
- one of the largest phosphate resource owners in China and the largest feedstuff calcium manufacturer in Asia.

The Group strives to become a global leading provider of agricultural inputs and agrichemical services. The Group constantly aspires to achieve sustainable, stable and rapid growth, to deliver value and returns to the shareholders, and to be committed 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 qualified for the 22th time by ranking the 113th in 2012. The second largest shareholder of the Company is Potash Corporation of Saskatchewan Inc., which is the largest potash producer in the world.

COMPANY PROFILE AND CORPORATE INFORMATION

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

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. CHEUNG Kar Mun, Cindy
Ms. DONG Jiao Jiao *(appointed on 28 February 2013)*

Chief Financial Officer

Mr. GAO Jian

Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

Company Secretary

Ms. CHEUNG Kar Mun, Cindy

Auditors

KPMG

Legal Adviser

Herbert Smith Freehills LLP

Principal Bankers

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

COMPANY PROFILE AND CORPORATE INFORMATION

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

Telephone	:	(852) 3656 1588
Fax	:	(852) 2850 7229
Address	:	Units 4601-4610, 46th Floor Office Tower, Convention Plaza 1 Harbour Road Wanchai Hong Kong

Beijing

Telephone	:	(10) 5956 9635
Fax	:	(10) 5956 9627
Address	:	Level 10, Central Tower Chemsunny World Trade Centre 28 Fuxingmen Nei Road Beijing 100031 PRC

FINANCIAL HIGHLIGHTS

Financial Highlights

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

	2012	2011
Sales volume *(in 10,000 tons)*	**1,714**	1,646
Turnover	**41,190,137**	36,684,963
Gross profit	**2,377,802**	2,089,689
Profit before taxation	**1,022,365**	836,501
Profit attributable to the owners of the Company	**878,369**	677,968
Basic earnings per share *(RMB)*	**0.1250**	0.0966
Return on Equity *(Note 1)*	**6.36%**	5.20%
Debt to Equity Ratio *(Note 2)*	**31.10%**	40.55%

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

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

SINOFERT

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I report the annual performance of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2012 to all the shareholders.

In 2012, world economy was still in the period of deep transformation and adjustment due to the continuous impact of the global financial crisis; China's economic growth slowed down though the overall environment in China was recognized with structure optimization, stable commodity price and improvement of people's livelihood. Meanwhile, global food price went into the period of adjustment in the second half after it rose sharply in the first half, and the era of high food price has come into being. As for domestic fertilizer market, the price of all fertilizers increased steadily in the first half, which brought a better external market environment to the Group; however, fertilizer market was in concession in the second half of the year, which brought great pressure on the Group. In general, competition in fertilizer market was still fierce, and contradiction of oversupply was still prominent for nitrogen and phosphate with strengthening pressure in energy saving and emission reduction.

Confronted with such external environment, the Group actively promoted the established strategic issues and achieved a breakthrough in strategic transformation with the principle of making progress while maintaining stability. First of all, substantial progress has been achieved in resource acquisition strategy. 300 million tons of high-quality phosphate resource was acquired through the acquisition of Xundian Lomon Phosphorus Chemical Co., Ltd., investment income was realized during the acquisition period. Secondly, the industrial segments have been optimized. And the Group introduced a strategic investor into Sinochem Pingyuan Chemical Co., Ltd., a former subsidiary of the Group, which could guarantee its coal resource and long-term profitability; the extension project of urea production line in Sinochem Jilin Changshan Chemical Co., Ltd. commenced during the year, which could bring 300,000 tons of new urea production capacity and gradually support it to become a nitrogen industrial base of the Group in northeastern China. Thirdly, more efforts have been made in marketing and service enhancement. The operating network became thoroughly self-managed; marketing and service channels were explored in regional market, as well as to transform the distribution network from a distributor into an enterprise recognized by its knowledge, wisdom, technology and service; and enhance the integrated operation ability of the Group.

In 2012, the Group seized the opportunities actively while controlled the risks strictly. During the year, sales volume amounted to 17.14 million tons, increased by 4.13% over last year, which further enhanced our role as the biggest fertilizer distributor in China; turnover of the year amounted to RMB41,190 million, increased by 12.28% over last year; and profit attributable to the owners of the Company amounted to RMB878 million, increased by 29.56% over last year.

The Board of Directors consistently aim to maximize the shareholders' value in the Group, thus we continuously improved corporate governance and optimized the corporate governance mechanism. In compliance with the Corporate Governance Code as required by the Stock Exchange of Hong Kong Limited, the Company held four regular board meetings in 2012 to review and approve certain resolutions regarding to the annual report, interim report, corporate development strategy and major investment projects etc.. The Board of Directors also reviewed material investment, connected transactions and other matters through irregular meetings. The Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee under the Board held their 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.

The Group foresees both opportunities and challenges in 2013. The world economy is always complicated and unstable, and expected to enter into a stage of further transformation and restructuring; the domestic economy is expected to enter into a growth period at "medium speed" from the previous rapid development. With the release of production capacity in the fertilizer industry, the oversupply situation will sharpen and exist for a long period; the significant price fluctuations on the fertilizer market will become more common, the traditional peak

season in consumer market will no longer be obvious, competition in the market is expected to be even fierce. Besides, the Chinese government will stabilize and improve its policies aiming at "strengthening agriculture, benefiting farmers, and enriching rural areas", quicken the development of modern agriculture and carry out favourable adjustment in its national fertilizer export policies.

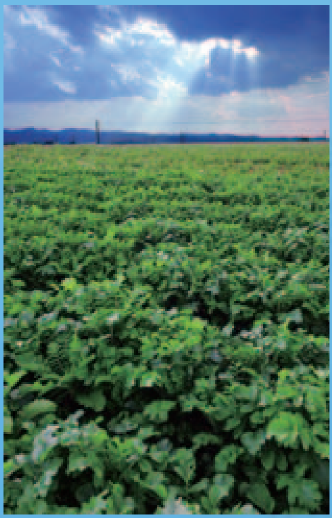
Facing the challenges and opportunities, the Group will continue to stick to the philosophy "creating value and pursuing excellence", actively promote the seven strategies, namely, improving the customer-oriented marketing and service capability, realizing industrial development based on advanced manufacturing, acquiring resources from a global perspective, quickening scientific and technological innovation with focus on serving the industry, providing information guarantee for transformation, building the human resource engine for the promotion of sustainable development of the Company and promoting the HSE strategy to guarantee our role as China's biggest fertilizer supplier and distributor, continue the construction of a comprehensive industry chain which includes resource, R&D, manufacture, distribution and services. We target to enhance our core competitive edge and sustainable profitability, fulfill our business goals for the year 2013, and be committed to create value for the shareholders, wealth for society and development for employees.

Last but not the least, on behalf of the Board of Directors, I would like to take this opportunity to extend our appreciations to the shareholders, customers, the management and employees of the Group. We hope to have your continuous support in 2013, and expect the management and employees bear in mind our mission, consolidate the fruits of reforms, break the bottleneck, enhance our core competitiveness and strive to create a new prospect for the strategic transformation of the Company.

Liu De Shu
Chairman of the Board

Hong Kong, 28 March 2013

Nurturing
CHINA'S
Agriculture Sector



MANAGEMENT REVIEW AND PROSPECT

Business Environment

In 2012, the international political and economic environment was rather complicated and unstable, the global economy saw a slow recovery, and China took the initiative to slow down its economic development. The Chinese government implemented a general principle of making progress while ensuring stability, 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, implemented positive fiscal policy and prudent monetary policy, attached more importance to steady growth, and promoted the steady and rapid economic growth.

In 2012, the world population continued to grow steadily, the grain supply and demand was still in tight balance, and uncertain factors such as the frequent severe weather and natural disasters kept appearing, which resulted in an even higher global grain price. China's grain production increased for the 9th time in a row, but there is still a big pressure on guaranteeing China's grain safety. To promote the building of a modern agriculture and improve grain productivity is the fundamental way out and the fertilizer industry will play a very important role in the process of agricultural modernization. Besides, the Chinese government attached high importance to problems related to agriculture. The No.1 Central Document in 2012 continually focus on agriculture, give priority to agricultural science and technology, and specify that various effective measures must be taken to increase the agricultural production and the income of farmers as well as push forward the transformation of the growth pattern of agriculture, which brought opportunities for the development of fertilizer industry.

In 2012, the competition in the fertilizer industry was even fiercer. The growth of world fertilizer demand slowed down, the production capacity rapidly increased and thus the situation of global fertilizer oversupply was even more prominent. As the largest fertilizer producer and consumer in the world, China suffered from oversupply in nitrogen and phosphate, except potash. Meanwhile, against the background of oversupply, favourable policies for the fertilizer industry were constantly tightened, constraints from environmental protection and resources strengthened, which led to bigger cost pressure and larger difficulty in operation for enterprises.

Confronted with the complex market environment, the Group aimed at enhancing its core competitiveness and focused on the implementation of seven strategies under the leadership of the Board. The Group made breakthrough in resources and industries, and realized sustainable development of the Group against the unfavourable background of a declining market.

Financial Highlights

For the year ended 31 December 2012, the Group's turnover amounted to RMB41,190 million, increased by 12.28% over last year; and profit for the year attributable to owners of the Company amounted to RMB878 million, increased by 29.56% over last year.

MANAGEMENT REVIEW AND PROSPECT

Resource Guarantee

In 2012, the Group acquired 100% of the equity interest of Xundian Lomon Phosphorus Chemical Co., Ltd. in Xundian, Yunnan, and renamed it as Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong") and achieved substantial breakthrough in its resource strategy. Sinochem Yunlong is a large production enterprise integrating phosphate mine exploitation, beneficiation, phosphate production and sale with 300 million tons of high-quality phosphate mine resources, 600,000 tons of annual phosphate mine exploitation capacity and 300,000 tons of annual high-end monocalcium/monodicalcium phosphate production capacity.

After the acquisition, all the key performance indicators of Sinochem Yunlong exceeded the expectations set in the approved feasibility report. 495,000 tons of phosphate rock was produced in 2012, the production capacity of monocalcium/monodicalcium phosphate reached the full capacity for the first time and the production quantity amounted to 210,000 tons, a historical record. At the same time, the product cost was significantly reduced and the product quality reached the international leading standard. After one-year operation, the benefit of this strategic acquisition started to appear which laid a foundation for the Group to link up the industrial chains of phosphate fertilizer and phosphorous chemicals and accumulated experience and reference for the continuous promotion of the resource acquisition strategy.

Production and Manufacturing

In 2012, annual fertilizer production capacity of the Group exceeded 10 million tons. At the same time, we constantly enhanced the management, pursued science and technology innovation, and promoted cost saving strategy, thus increased both production and supply capacity.

MANAGEMENT REVIEW AND PROSPECT

Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, with a fertilizer production capacity of 1.8 million tons, produced 1.567 million tons phosphate and compound fertilizers and 0.56 million tons of other compound fertilizer during the year. With the price of raw materials remaining high, Sinochem Fuling maintained cost saving strategy and its efforts in scientific and technological innovation, applied for 20 patents in 2012 and 42 cumulative patents applications in total. In June 2012, Sinochem Fuling was awarded "Model Enterprise in Leading Energy Efficiency of 2011" by the Ministry of Industry and Information Technology of the PRC and China Petroleum and Chemical Industry Federation; and was also granted "Innovative Enterprise of 2011" by the municipal government of Chongqing. The "Tengsheng Brand" of Sinochem Fuling was honoured as Well-known Brand in China by the State Administration for Industry and Commerce of the PRC.

With an annual fertilizer production capacity of 300,000 tons, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, produced 311,000 tons urea in 2012. By cooperating with scientific institutes, Sinochem Changshan successfully launched 6 new products including polypeptide urea, slow release urea and granular urea, etc. The "Changshan Brand" was honoured as Well-known Trademark in China by the State Administration for Industry and Commerce, serving as a solid foundation for Sinochem Changshan to implement the brand strategy, form core competitiveness and build the top urea brand in the northeastern China. In terms of technical renovation, projects such as granular urea technical renovation and brick making with fly ash came into successful operation; the 2-year rebuilding and extension project of energy saving and consumption reduction for urea production facilities in Sinochem Changshan officially commerced, with a total investment of RMB1,198 million. After the project is completed, the annual synthetic ammonia and urea production capacity in Sinochem Changshan would increase to 360,000 tons and 600,000 tons, respectively.

With a fertilizer production capacity of 1 million tons, Sinochem Pingyuan Chemical Co., Ltd. ("Sinochem Pingyuan"), a former subsidiary of the Group, reactivated its idle equipment, explored the potential of its equipment, carried out technical renovation and took measures to save energy and reduce consumption and annual urea production achieved 1.048 million tons, reaching the best historical level. Besides, the Group introduced Yangmei Chemical Investment Co., Ltd. ("Yangmei Chemical") as strategic investor to Sinochem Pingyuan, which further guaranteed coal resources and improved its cost competitiveness. After

the capital injection, Sinochem Pingyuan was renamed as Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") and the shares held by the Group in Yangmei Pingyuan decreased from 75% to 36.75%.

The production and operation of afiliates of the Group such as Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. and Gansu Wengfu Chemical Co., Ltd. continued high performance and produced a total of 576,000 tons of phosphate fertilizers (based on the share of equity interest).

Marketing Strategies

The Group resolutely carried out the established operation strategies, continuously intensified the construction of marketing service ability and the development of basic-level customers. During the year, sales volume achieved 17.14 million tons, increased by 4.13% over last year, which further consolidated the status as the biggest fertilizer distributor in China.

Potash Operations: Sales volume of potash fertilizer amounted to 3.18 million tons in 2012. The Group maintained its leading status in domestic potash market by seizing the customers' demand, maintaining good cooperation with over 500 core customers in China, increasing the value of differentiated service and actively improving operation quality. The Group successfully finalized the joint negotiations for the first half of 2013 on potash import at a competitive price, achieved further solid cooperation with international core suppliers, ensured that China's potash import price was preferable enough to build a good foundation for the potash business operation in 2013.

Nitrogen Operations: In 2012, the overall scale of the nitrogen operations was stable and the Group was among the top enterprises in terms of market share of nitrogen in China with sales volume amounted to 7.63 million tons. Breakthrough was made in the building of the core supplier system and a group of 28 core suppliers was identified; the operation of new nitrogen products expanded rapidly and sales volume increased to 206,000 tons, new nitrogen products were introduced including UAN and alginates which were high-efficient, energy-saving and environmental-friendly, and the technical content of the products was gradually increased; the Group co-hosted the 2012 China International Nitrogen Fertilizer & Methanol Conference, fully played the role of director of Market Trade Committee of China Nitrogen Fertilizer Industry Association and a core member of China Soda Industry Association and largely enhanced its impact on the industry.

Phosphate and Compound Fertilizer Operations: Sales volume of phosphate fertilizer amounted to 3.57 million tons, increased by 17.14% over last year; and sales volume of compound fertilizers amounted to 2.18 million tons, decreased by 10.39% from last year. The Group strengthened strategic procurement concept for domestic phosphate fertilizer, achieved breakthrough in the building of the supplier system and reduced the procurement cost while enhancing the industrial status. Combination of Various Fertilizer Products and Combination of Fertilizers and Mines were promoted among phosphate and compound fertilizer products, synergy among phosphate and compound fertilizer products was strengthened and a solid step was taken towards linking up the industrial chain of phosphate and compound fertilizer products. Leading by customer-oriented strategy in domestic compound fertilizer, the Group continued to promote integrated strategic transformation and enhanced the marketing capability of the distribution network while maintaining relatively high capacity utilization in our manufacturing subsidiaries.

Monocalcium (MCP)/Monodicalcium phosphate (MDCP) operations: Sales volume of monocalcium/monodicalcium phosphate in 2012 amounted to 150,000 tons. By relaying on the quality advantage of having stable production from its own phosphate mine and comprehensive cost advantage as well as the transportation advantage of being close to the near-sea market, MDCP was mainly sold on the near-sea market and ocean-going market. By making use of the quality and technology advantage of Sinochem Yunlong, MCP focused on domestic major customers and met the demand of domestic customers quite well.

In 2012, the Group continued to optimize the existing network layout to improve the profitability of the distribution network. 112 distribution centers were upgraded and renovated over the year and the number of the distribution centers was maintained at over 2,000; customer population amounted to around 26,000 in 2012, including 17,000 customers at the township level with a total procurement volume of 10.84 million tons. The Group continued to explore new business models. For example, Hainan branch cooperated with the Hainan Science and Technology Bureau to carry out integration and promotion of the microelement fertilizer application technology, Shandong branch carried out direct sales of pesticides, Jilin branch cooperated with rural agents to carry out direct sales to end-users and Guangxi branch cooperated with the Postal Savings Bank of China. At the same time, logistics and storage capacity was constantly improved and logistics projects were built in key areas such as Linyi and Shijiazhuang. Besides, the Group actively enhanced the human resource in the network in order to build up a team with high recognition of the corporate culture, high professional competence, high learning ability, teamwork spirit and innovative concept.

Internal Control and Management

The Group attached great importance to internal control and risk management. Besides the special committees of the Board, the Group also set up seven special management committees including risk and internal control management committee, and vigorously promoted the internal control and risk management system of "risk management oriented, by internal control prioritized" within the scope authorized by the Board.

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 commissions of China central government. The Group conducted annual assessment on comprehensive risk management, with full participation from the headquarter, distribution network, subsidiaries 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 cope with 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

The Group actively brought into play its influence and leading status in the industry, consolidated its leading position in the market and strove to become a resource-saving and environmental-friendly model enterprise with advanced technology in the industry and also an important pillar supporting the national agricultural safety.

MANAGEMENT REVIEW AND PROSPECT

The Group continued to promote the agrochemical service system mainly featuring "agrochemical knowledge spreading system, on-site service providing system and soil-testing and scientific fertilization service system", promoted the scientific application of agricultural inputs and helped farmers increase their grain production and income. In 2012, the Group was certified by China Petroleum and Chemical Industry Federation as "National Agronomic Service Center".

The Group upgraded the 800 Free Hotlines in 2012 and was the first enterprise in the domestic agricultural inputs industry to adopt 400 Service System. By the end of 2012, a total of 230,000 person-times phone call were received through from the above service. 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 1.6 billion cumulative audience-times in total. Over 1,000 promotional activities was carried out by cooperating with professional media such as TV channels, broadcasting stations and newspapers related to the rural areas in various provinces, which directly and indirectly benefited ten million more farmers.

The Group cooperated with the Department of Science and Education of the Ministry of Agriculture as well as the provincial agricultural committees to delivery science and technology to households and to build up science and technology demonstration counties, demonstration villages and field schools for farmers and to promote on-site guidance services. By the end of 2012, over 200 agronomic experts were invited throughout China to carry out guidance service activities for more than 5,000 times in one area and one bureau in the three provinces in northeastern China by coordinating with the "Double-growth 200" corn activity initiated by the Ministry of Agriculture. At the same time, 50,000 copies of "Booklets for Corn Planting in Northern Areas of China" and 100,000 corn high-yield technology posters were published, which was highly recognized and appreciated by the farmers.

MANAGEMENT REVIEW AND PROSPECT

The soil testing and fertilization service system was established and improved to provide professional support for scientific fertilization and reasonable application of fertilizers by the farmers. In 2012, by coordinating with the Ministry of Agriculture, the Group carried out the project of linking up farmers and enterprises in terms of formula fertilizer and the project of "one hundred counties, one thousand townships and ten thousand villages", set up soil testing and fertilizer service stations in Wen County of Henan Province, Baoding City of Hebei Province and Dashiqiao City of Liaoning Province and initially formed the technological service and operation management model of the fertilization station.

The Group elevated HSE management to the same high level as Company's strategies for the first time and combined it with production operation and the sustainable development of the Group. Substantial progress was achieved in the energy saving and emission reduction effort and the four obligatory indicators were all substantially reduced. In particular, the total energy consumption was reduced by 9.4%, the energy consumption per RMB10,000 output value by 22.5%, SO_2 by 5.4% and COD by 24%.

Sinochem Fuling, a subsidiary of the Group, was awarded as "Model Enterprise in Leading Energy Efficiency" by the Ministry of Industry and Information Technology of the PRC and China Petroleum and Chemical Industry Federation. Sinochem Changshan was granted subsidies from the Ministry of Industry and Information Technology of the PRC and the Ministry of Finance. Considerable progress have been made to build a green economy, recyle economy and low-carbon-emission economy.

Outlook

In 2013, the world economic recovery is confronted with unstable factors and uncertainties and China's economic and social development is still at an important strategic stage full of opportunities. The Chinese government will focus on improving the economic growth quality and efficiency, deepening reform, implementing the innovation-oriented strategy, seeking progress while ensuring stability, making exploration and innovation and strengthening a solid foundation so as to realize the continued and sound development of the economy as well as the harmony and stability of the society.

The 18th National Congress of the Communist Party of China specified that China persisted in taking a new roadmap of industrialization, informatization, urbanization and agricultural modernization with Chinese characteristics and promoted the synchronous development of "industrialization, informatization, urbanization and agricultural modernization". In 2013, China central government will continue to strengthen favourable policies aiming to benefit and support "agriculture, rural areas and farmers". On 31 January, the No.1 Document was released, highlighting innovation in the agricultural production operation mechanism and continuing to strengthen support for agriculture. The China central government has been making continuous additional input in agriculture, renovating the agricultural production operation mechanism and building new agricultural production operation system, which will speed up the modernization process of agriculture in China and promote 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 the 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.

MANAGEMENT REVIEW AND PROSPECT

In recent years, with production capacity increasing dramatically, 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 seven strategies, namely, marketing, resources, industry, science and technology, human resources, information technology and HSE, 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, in order to build a sustainable commercial model and operation model, 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 2012, sales volume of the Group was 17.14 million tons, and turnover amounted to RMB41,190 million, increased by 4.13% and 12.28%, respectively, over the corresponding period of 2011.

For the twelve months ended 31 December 2012, gross profit of the Group amounted to RMB2,378 million, increased by RMB288 million over the corresponding period of 2011. The profit for the year attributable to owners of the Company amounted to RMB878 million, increased by RMB200 million or 29.56% over the corresponding period of 2011.

I. Operation Scale

1. Sales Volume

For the twelve months ended 31 December 2012, sales volume of the Group was 17.14 million tons, increased by 4.13% over the corresponding period of 2011. In 2012, the fertilizer market price experienced the process of rising first and then falling, and the price of major fertilizers dropped continuously in the second half of the year. Confronted with this market condition in 2012, sales volume of imported fertilizers increased by 5.51% to 3.64 million tons and sales volume of domestic fertilizers increased by 1.58% to 12.85 million tons benefited from the Group's integration operations of comprehensive industrial chain.

In terms of product composition, the Group acquired competitive potash continuously and steadily through strengthening strategic partnership with core domestic and overseas suppliers, and meanwhile enhanced marketing ability to keep competitive in the circumstance of self sufficiency ratio of domestic potash increasing constantly. Sales volume of potash was 3.18 million tons in 2012, without significant fluctuation from last year. By relying on stable and low-cost supply from upstream manufacturing subsidiaries of the Group, sales volume of nitrogen increased by 2.43% despite market fluctuations. By strengthening the supply alliance with both domestic and overseas suppliers, and meanwhile enhancing optimization of channels, consolidating industrial and agricultural clients, and improving customer loyalty, sales volume of phosphate increased by 17.14% over last year. Due to the continuous consession of compound fertilizer market and price inversion in some districts, sales volume of compound fertilizer decreased by 10.39% from last year.

2. Turnover

For the twelve months ended 31 December 2012, turnover of the Group amounted to RMB41,190 million, increased by RMB4,505 million, or 12.28% over 2011. The growth rate of turnover was higher than the growth rate of sales volume (4.13%), which was mainly attributable to the increasing prices in 2012. The Group's average selling price increased by 7.82% over the year 2011.

Table 1:

	For the twelve months ended 31 December			
	2012		2011	
	Turnover *RMB'000*	**As percentage of total turnover**	Turnover *RMB'000*	As percentage of total turnover
Potash fertilizers	**9,732,212**	**23.63%**	9,164,189	24.98%
Nitrogen fertilizers	**14,148,804**	**34.35%**	12,446,459	33.93%
Compound fertilizers	**6,187,857**	**15.02%**	6,401,861	17.45%
Phosphate fertilizers	**9,383,220**	**22.78%**	7,438,971	20.28%
MCP/MDCP	**542,238**	**1.32%**	–	–
Others	**1,195,806**	**2.90%**	1,233,483	3.36%
Total	**41,190,137**	**100.00%**	36,684,963	100.00%

3. Turnover and Result by Segment

The operating segments of the Group consist of distribution of fertilizers and agricultural related products ("Marketing 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 2012 and the corresponding period of 2011:

Table 2:

2012

	Marketing	**Production**	***Eliminations***	***Total***
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Turnover				
External sales	**34,855,772**	**6,334,365**	**–**	**41,190,137**
Inter-segment sales	**372,475**	**2,111,168**	**(2,483,643)**	**–**
Total	**35,228,247**	**8,445,533**	**(2,483,643)**	**41,190,137**
Segment gross profit	**1,397,061**	**980,741**	**–**	**2,377,802**
Segment profit	**531,148**	**438,802**	**–**	**969,950**

2011

	Marketing	Production	Eliminations	Total
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 gross profit	1,351,498	738,191	–	2,089,689
Segment profit	684,061	105,000	–	789,061

Segment profit represents the profit earned by each segment without deducting unallocated expenses and incomes, share of profit in associates and joint ventures, changes of fair value in derivative financial instruments and finance costs. Information reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment.

The Group's results for the twelve months ended 31 December 2012 increased by RMB181 million or 22.93% to RMB970 million over the corresponding period of 2011, which was mainly attributable to that the Group fully understood the market situation, seized the market opportunities and fully utilized the comprehensive industrial chain to maintain a sustainable growth in 2012 despite the downward market. The profit of Marketing Segment decreased by RMB153 million over last year, which was mainly attributable to downward market price in the second half of the year; while the profit of Production Segment increased by RMB334 million over last year, which is mainly attributable to continuous implementation of technological innovation, cost reduction, production efficiency improvement, high and stable yields achievement, and meanwhile further promotion of low cost strategy in production subsidiaries.

II. Profit

1. Gross profit

For the twelve months ended 31 December 2012, gross profit of the Group amounted to RMB2,378 million, increased by RMB288 million over the corresponding period of 2011.

The Group adopted different strategies for different products. In 2012, gross profit of potash increased by 9% due to advantageous potash supply; gross profit of nitrogen increased significantly due to fully taking advantage of comprehensive industrial chain and meanwhile grasping the market opportunities; gross profit of phosphate kept stable with last year despite the concession in market, certain measures was implemented to consolidate existing customers and develop new customers; gross profit of compound fertilizer declined due to the decrease in volume affected by the market.

In summary, except for compound fertilizer 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 2012, the share of results of jointly controlled entities of the Group amounted to RMB68 million, decreased by RMB7 million compared with RMB75 million for the corresponding period of 2011. This was mainly attributable to that Guiyang Sinochem Kailin Fertilizer Co., Ltd. ("Sinochem Kailin"), one of our jointly controlled entities, received a capital injection from the other party in 2012, which diluted the equity interest of the Group to 13.41% in Sinochem Kailin. Therefore, Sinochem Kailin was reclassified as available-for-sale investment, thus resulted in a decrease of RMB11 million of the share of results of jointly controlled entities over last year.

Share of results of associates: For the year ended 31 December 2012, the share of results of associates of the Group amounted to RMB236 million, increased by RMB35 million over the corresponding period of 2011. This was mainly attributable to that the share of results of associates increased by RMB26 million from Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd., one of the associates of the Group, with the increase of selling price of phosphate rock; and the share of results of associates increased RMB5 million form Qinghai Salt Lake Co., Ltd. ("Qinghai Salt Lake").

3. Income tax expenses

For the twelve months ended 31 December 2012, income tax expense of the Group was RMB99 million, decreased by RMB52 million from the corresponding period of 2011. This was mainly attributable to the decrease of taxable profit of Sinochem Fertilizer Co., Ltd., a subsidiary of the Group, as a result of the weak compound fertilizer market.

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 2012, profit attributable to owners of the Company was RMB878 million, increased by RMB200 million over the corresponding period of 2011. This was mainly attributed to the fact that the Group actively took operational measures, gave full play to the advantage of the comprehensive industrial chain, strived to increase sales volume and improved the profit level.

For the twelve months ended 31 December 2012, the net profit margin was 2.13%, which is calculated based on profit attributable to owners of the Company divided by turnover multiplied by 100%.

III. Expenditures

Selling and distribution expenses: For the twelve months ended 31 December 2012, selling and distribution expenses amounted to RMB804 million, increased by RMB89 million or 12.45% from RMB715 million for the corresponding period of 2011. The increase was mainly attributable to the rising logistics cost for the expansion of the Group's business scale and the increase of domestic logistics cost over last year.

Administrative expenses: For the twelve months ended 31 December 2012, administrative expenses amounted to RMB630 million, increased by RMB84 million or 15.38% from RMB546 million for the corresponding period of 2011. This was mainly attributable to the consolidation of RMB75 million in administrative expenses in 2012 after the Group's acquisition of Sinochem Yunlong.

Finance costs: For the twelve months ended 31 December 2012, finance costs amounted to RMB367 million, increased by RMB25 million or 7.31% from RMB342 million for the corresponding period of 2011. This was mainly attributable to the relative higher loan interest rate under the tight monetary policy in the first half of 2012, which led to the increase of finance costs correspondingly.

IV. Other Income and Gains

For the twelve months ended 31 December 2012, the Group's other income and gains amounted to RMB190 million, increased by RMB21 million or 12.43% from RMB169 million for the corresponding period of 2011. Other income and gains of the Group mainly included:

1. Interest income of RMB53 million from other deposits.
2. Waived outstanding payables of 28 million.
3. Income of RMB17 million through selling waste materials and raw materials.
4. Government subsidies of RMB15 million received during the year.
5. Compensation received during the year amounted to RMB14 million.
6. Other miscellaneous items amounted to RMB63 million, besides the above 5 items.

V. Other Expenses and Losses

For the twelve months ended 31 December 2012, the Group's other expenses and losses amounted to RMB141 million, decreased by RMB77 million or 35.32% from RMB218 million for the corresponding period of 2011. Other expenses and losses of the Group mainly included:

1. Provision for inventory, amounted to RMB86 million.
2. Exchange loss of RMB23 million due to fluctuations of exchange rate of RMB against US dollar during the year.
3. Real estate management cost of RMB12 million during the year.
4. Other miscellaneous items amounted to RMB20 million, besides the above 3 items.

VI. Impairment Loss on Goodwill

There was no impairment loss on goodwill in 2012 while impairment loss on goodwill amounted to RMB265 million for the year 2011. This was mainly attributable to the fact that the production cost of nitrogen business in Sinochem Pingyuan remained high due to the rising price of raw material whereas the selling price was stable, thus led to decrease in profitability. Based on the cash flow forecast and the estimated discount rate of 10.4% for the first 3 years, recoverable amount was lower than the goodwill and book value of long-term assets. Therefore, impairment loss on goodwill was made by the end of 2011. Sinochem Pingyuan had become an associate instead of a subsidiary of the Group since 31 October 2012.

VII. Gains on Deemed Dilution of Interest in 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 attributable to the fact that in the first half of 2011, 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"). 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 (the "Merger") and changed its name to Qinghai Salt Lake Industry Co., Ltd. ("Salt Lake Industry"). 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, deemed dilution in investment and gains were recognized accordingly.

VIII. Gains on Deemed Disposal of Interest in a Subsidiary

For the twelve months ended 31 December 2012, gains in the deemed disposal of a subsidiary of the Group was RMB92 million. This was attributable to the fact that Yangmei Pingyuan (formerly known as "Sinochem Pingyuan"), a former subsidiary of the Group, accepted Yangmei Chemical as a strategic investor by capital injection, in order to secure its raw material supply. After the capital injection, the Group reduced its equity interest in Yangmei Pingyuan from 75% to 36.75%, and recognized a gain in the deemed disposal.

IX. Inventory

The inventory balance of the Group as at 31 December 2012 amounted to RMB5,376 million, decreased by RMB2,088 million or 27.97% from RMB7,464 million as at 31 December 2011. This was mainly attributable to the fact that the Group strictly controlled the inventory scale to mitigate inventory risks since the price of all fertilizers decreased near by the end of 2012. Meanwhile, the potash fertilizer price negotiation was not finalized in the second half of 2012, which led to the decrease of approximately RMB2,000 million in inventory as at 31 December 2012 compared with 31 December 2011. Inventory turnover days (Note) decreased from 66 days in 2011 to 60 days in 2012 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.

X. Trade and Bills Receivables

The balance of the Group's trade and bills receivables as at 31 December 2012 amounted to RMB1,159 million, decreased by RMB550 million or 32.18% from RMB1,709 million as at 31 December 2011. This was mainly because that the Group increased payment collection in cash and reduced payment collection in bills, thus reduced the balance of bills receivables as at 31 December 2012 significantly over that as at 31 December 2011.

Affected by both the 12.28% 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 23 days in 2011 to 12 days in 2012.

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

XI. Interests in Jointly Controlled Entities

As at 31 December 2012, the balance of the Group's interests in jointly controlled entities amounted to RMB586 million, decreased by RMB133 million or 18.50% from RMB719 million as at 31 December 2011. The main reason was that Sinochem Kailin, one of jointly controlled entities of the Group, was reclassified as an available-for-sale investment after its equity interest held by the Group was diluted. Thus, the interests in jointly controlled entities were decreased by RMB195 million. Meanwhile, as all the jointly controlled entities realized profit due to the recovery of fertilizer market, the interests in jointly controlled entities increased by RMB62 million according to equity accounting method.

XII. Interests in Associates

The balance of the Group's interests in associates as at 31 December 2012 amounted to RMB8,178 million, increased by RMB424 million or 5.47% from RMB7,754 million as at 31 December 2011, including:

1. Share of results of associates for the year 2012 amounted to RMB236 million, which increased interests in associates.

2. In October 2012, Yangmei Pingyuan (formerly known as "Sinochem Pingyuan"), a former subsidiary of the Group, accepted Yangmei Chemical as the strategic investor by capital injection. After the capital injection, the Group reduced its equity interest in Yangmei Pingyuan from 75% to 36.75%, and remained significant influence on Yangmei Pingyuan according to its regulations of articles of incorporation. Therefore, the investment in Yangmei Pingyuan was reclassified as an interest in associates, which led to an increase of RMB210 million in the interests in associates.

XIII. Available-for-sale Investments

As at 31 December 2012, the balance of the Group's available-for-sale investments amounted to RMB372 million, increased by RMB199 million or 115.03% from RMB173 million for the corresponding year of 2011. This was mainly attributable to the fact that the equity interest in Sinochem Kailin (one of the Group's joint controlled entities) was diluted, and the Group lost its rights to jointly control Sinochem Kailin. Therefore the investment was reclassified as available-for-sale investment.

XIV. Borrowings

As at 31 December 2012, the balance of the Group's borrowings amounted to RMB4,463 million, decreased by RMB958 million or 17.67% from RMB5,421 million as at 31 December 2011. This was mainly because the Group repaid certain borrowings after the good operating cash inflows were taken into consideration.

XV. Trade and Bills Payables

As at 31 December 2012, the balance of the Group's trade and bills payables amounted to RMB3,565 million, decreased by RMB1,967 million or 35.56% from RMB5,532 million as at 31 December 2011. This was mainly attributable to the fact that the Group downsized the inventory scale and decreased the procurement to prevent the inventory risk which resulted in the bills and accounts payable decreased by RMB1,967 million.

XVI. Other Financial Indicators

Basic earnings per share for the twelve months ended 31 December 2012 amounted to RMB0.1250, increased by RMB0.0284 from RMB0.0966 for the same period of 2011. Return on equity (ROE) for the twelve months ended 31 December 2012 was 6.36%, increased by 1.16 percentage points from 5.20% for the same period of 2011. This was mainly due to the increasing profit of the Group.

Table 3:

	2012	2011
Profitability		
Earnings per share (RMB) *(Note 1)*	**0.1250**	0.0966
ROE *(Note 2)*	**6.36%**	5.20%

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

Note 2: Calculated based on profit attributable to equity shareholders 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 2012, the Group's current ratio was 1.26, and the debt-to-equity ratio was 31.10%. The Group achieved a more stable financial structure.

Table 4:

	2012	2011
Liquidity and Capital adequacy		
Current ratio *(Note 1)*	**1.26**	1.15
Debt-to-Equity ratio *(Note 2)*	**31.10%**	40.55%

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

Note 2: Calculated based on 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 loans. All the financial resources were primarily used for the Group's trading and distribution, production, repayment of liabilities and for related capital expenditures.

As at 31 December 2012, cash and cash equivalents of the Group amounted to RMB335 million, which was mainly denominated in RMB and US dollar.

Below is an analysis of borrowings of the Group:

Table 5:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Bank borrowings, secured	**69,998**	–
Bank borrowings, unsecured	**1,909,026**	2,939,931
Bonds		
Principal amount	**2,500,000**	2,500,000
Less: amortized transaction costs	**(16,215)**	(18,565)
Total	**4,462,809**	5,421,366

Table 6:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Carrying amount repayable		
Within one year	**1,577,724**	2,349,358
More than two years, but within five years	**401,300**	583,300
More than five years	**2,483,785**	2,488,708
Total	**4,462,809**	5,421,366

Table 7:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Fixed-rate borrowings	**3,358,032**	3,275,343
Variable-rate borrowings	**1,104,777**	2,146,023
Total	**4,462,809**	5,421,366

As at 31 December 2012, the Group had banking facilities equal to RMB34,265 million, including US$1,705 million and RMB23,812 million, respectively. The amount of utilized banking facilities amounted to US$102 million and RMB1,829 million, and unutilized banking facilities amounted to US$1,603 million and RMB21,983 million, respectively.

As at 31 December 2012, certain land use right, property, plant and equipment with carrying values of RMB37 million were pledged to secure banking facilities and borrowings granted to the Group. As at 31 December 2012, RMB30 million of such banking facilities and borrowings was utilized.

As at 31 December 2012, the Group's notes receivable with book value of RMB70 million were discounted from bank.

The Group planned to repay the above loan liability with internal resource.

XVIII. Operation and Financial Risks

The Group's major operation risks include: the recovery of the world economy was still with great uncertainty; fertilizer price was quite volatile in the domestic market due to overproduction and fertilizer industry restructuring and market competition would 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 represents unfavourable change in exchange rate that may have an impact on the Group's financial results and represents cash flow; interest rate risk represents the unfavourable change in interest rate that may lead to changes in the fair value of fixed rate borrowings; and other price risk represents the Group's risk relating to value of equity investments, which mainly derived from investments in equity securities and financial derivatives.

Majority of the Group's assets, liabilities and transactions are denominated in RMB, US dollar and Hong Kong dollar. The amount of the Group's foreign currency 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 mitigate potential negative impact on the Group's financial performance.

Credit risk

The majority of the Group's credit risk was attributable to the financial assets, which the counterparties might fail to carry out their obligations. The Group has adequate monitoring procedures in respect of granting credit, credit approval and other related aspects so as to ensure the timely follow-up of overdue debt to mitigate the credit risk.

Liquidity risk

Management is responsible for our Group's overall cash management and the raising of borrowings to cover expected cash demands, as well as mitigating the liquidity risks. Management continuously monitors the usage of borrowings and the compliance with bank loan terms.

XIX. Contingent Liabilities

As at 31 December 2012, the Group had no material contingent liabilities.

XX. Capital Commitment

Table 8:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition project, property, plant and equipment		
Contracted but not provided for	**150,996**	19,085
Authorized but not contracted for	**1,801,626**	2,095,810
Total	**1,952,622**	2,114,895

The Group plans to finance the above capital expenditure by internal resources, and has no plans for other material investment or capital expenditures.

XXI. Material Investments

The Group acquired Sinochem Yunlong in March 2012, with the total consideration of RMB1,380 million.

XXII. Material Disposal

After the capital injection on 31 October, 2012, the Group's equity interest in Yangmei Pingyuan (formerly known as "Sinochem Pingyuan") was diluted from 75% to 36.75% and the Group lost its controlling right, thus Yangmei Pingyuan was reclassified as an associate of the Group.

XXIII. Human Resources

As at 31 December 2012, the Group had about 8,061 full-time employees (including those employed by subsidiaries), and employees' remuneration was determined with reference to market rates. The key components of the Group's remuneration package included basic salary, and where applicable, other allowances, incentive bonus, mandatory provident funds, state-managed retirement benefits scheme and share options granted under the share option schemes of the Company. For details of the remuneration policy of the Group, please refer to the "Corporate Governance Report" of this annual report on page 52.

CHRONICLE OF EVENTS

January 2012

Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer"), a subsidiary of the Group, entered into an agreement with Sichuan Lomon Corporation, to acquire 100% equity interests in Yunnan Xundian Lomon Phosphorus Chemical Co., Ltd., obtaining 300 million tons of high quality phosphate resource.

In partnership with institutions including China Academy of Agricultural Sciences, the Group developed 5 major specialty fertilizers for rice, wheat, cotton, soy bean and corn, to boost agricultural yields and farmers' income through science and technology connotation.

February 2012

Sinochem Fertilizer, a subsidiary of the Group, established "Elite Training College of Sinofert", to build the company into a learning enterprise.

In partnership with International Plant Nutrition Institute and Hainan Academy of Agricultural Sciences, the Group hosted a 100-day campaign of "Sinofert's technology benefiting the farmers and promoting the spring ploughing, and Sinofert's agronomists disseminating knowledge on the field".

March 2012

The Group released its 2011 Annual Report.

The Group and Sichuan Lomon Corporation completed the transfer of equity interest in Xundian Lomon Phosphorus Chemical Co., Ltd., and renamed as "Sinochem Yunlong Co., Ltd."

The Group entered into import contracts of sea-borne potash of the first half 2012 with Canpotex, APC and BPC respectively.

The Group participated proactively in the pilot program, promoted by the Ministry of Agriculture, of soil testing and formula fertilization in "one hundred counties, one thousand townships and ten thousands villages", and was regarded as "the only national cooperative enterprise" by Ministry of Agriculture.

April 2012

"Changshan" brand of Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, was accredited as "China Famous Brand" by the State Administration for Industry and Commerce (SAIC).

May 2012

Mr. Feng Zhi Bin, CEO of the Company, led Sinofert's delegation to attend the 80th International Fertilizer Industry Association (IFA) Annual Conference held in Qatar and Mr. Feng Zhi Bin was elected as Chairman of the Production and International Trade Committee of IFA.

The Group entered into a strategic agreement with Ministry of Agriculture on jointly organizing the "Double-growth 200" technology campaign on corn in northeastern China, and continuing to build field schools for farmers.

CHRONICLE OF EVENTS

June 2012

The refine and extension project of energy saving and consumption reduction for urea production facilities in Sinochem Changshan was approved by the Board of Directors.

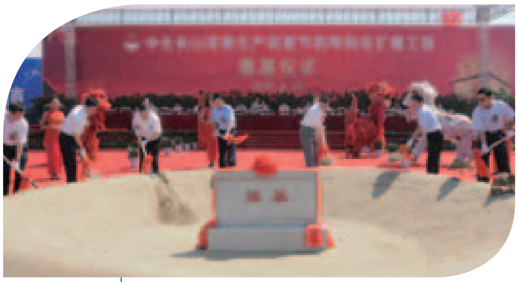
Sinochem Fertilizer, a subsidiary of the Group, entered into the share subscription and asset acquisition agreement with Yunan Yuntianhua Group Co., Ltd. ("Yuntianhua") to sell its 40% equity interests in Yunnan Three Circles Sinochem Fertilizer Co., Ltd. to Yuntianhua with the total consideration of approximate RMB425,135,000, which would be settled by the issuance of Yuntianhua consideration shares by Yuntianhua to Sinochem Fertilizer.

The Group entered into a strategic cooperation agreement with Shanxi Yangling Agricultural Hi-tech Industries Demonstration Zone to further deepen the cooperation on technological support, base construction, and market operation and so on.

Sinochem Chongqing Fuling Chemical Industry Co., Ltd, a subsidiary of the Group, was awarded one of the 15 petrochemical "Model Enterprises in Leading Energy Efficiency" by Ministry of Industry & Information Technology and China Petroleum and Chemical Industry Federation together.

July 2012

The Group entered into a strategic cooperation framework agreement with National Agricultural Technology Extension Center, to promote the cooperation in the integration of water and fertilizer, soil testing and formula fertilization, and fertilizer quality supervision and so on.



August 2012

Sinochem Changshan, a subsidiary of the Group, held the groundbreaking ceremony for the refine and extension project of energy saving and consumption reduction for urea production facilities.

The Group released its 2012 Interim Results, and held non-dealing roadshow in Hong Kong and Britain.

September 2012

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, holding talks with major international suppliers and conducting negotiations on potash import for the second half of 2012.

October 2012

Sinochem Fertilizer, a subsidiary of the Group, Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") (formerly known as "Sinochem Pingyuan Chemical Co., Ltd." and hereafter referred as "Yangmei Pingyuan"), Yangmei Chemical Investment Co., Ltd. ("Yangmei Chemical") and Pingyuan State-owned Assets Operation Co., Ltd. of Pingyuan County entered into the capital increase agreement, pursuant to which Yangmei Chemical agreed to inject a cash capital into Yangmei Pingyuan.

The delegation was headed by Mr. Feng Zhi Bin, CEO of the Company, to attend Production and International Trade (PIT) annual conference of International Fertilizer Association (IFA) in Ireland.

November 2012

Sinochem Fertilizer, a subsidiary of the Group, and Shell Corporation held agreement signing ceremony of technology introduction on sulphur-enhanced fertilizer (SEF) and sulphur supply in the Company.

The Group entered into a termination agreement of the share subscription and asset acquisition agreement with Yuntianhua due to the continuous decrease in the share price of Yuntianhua which became lower than the issue price for subscription of Yuntianhua's shares by Sinochem Fertilizer, a subsidiary of the Group, as agreed under the agreement.

DIRECTORS AND SENIOR MANAGEMENT

Directors

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

Mr. LIU De Shu, aged 60, joined the Company in April 2004, is Chairman of the Board currently. Mr. Liu graduated from Tsinghua University in China in April 1979 and got his EMBA degree from China Europe International Business School in 1998. In March 1998, Mr. Liu was appointed as President of China Sinochem Group (hereinafter abbreviated as Sinochem Group, parent company of Sinochem Hongkong Corporation Limited). Before joining Sinochem Group, he had been Deputy General Manager, General Manager and Chairman of China National Machinery Import and Export Corporation.

Mr. Liu holds other senior positions in several subsidiaries and joint venture companies of Sinochem Group. These positions include Chairman of Sinochem Corporation, Sinochem Quanzhou Petrochemical Corporation Limited and Far East Horizon Corporation Limited, and one of directors of Commercial Aircraft Corporation of China Limited.

Mr. Liu has profound and yet pragmatic experiences in corporate strategic development, operation and internal control. Due to the outstanding performance of Sinochem Group under his leadership, Mr. Liu was honored as one of the "30 Economic Figures During China's 30-Year Opening up and Reform" sponsored by China Society of Economic Reform in 2008, one of the "Most Influential Business Leaders in China" by Fortune (Chinese Version) in two consecutive years from 2011 to 2012, and one of the "National Outstanding Enterpreneurs" by China Enterprise Confederation in 2012. Currently, Mr. Liu is a member of the 12th National Committee of the Chinese People's Political Consultative Conference, and the director of International Academy of Management (IAM).

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

Mr. FENG Zhi Bin, aged 49, is Executive Director and Chief Executive Officer of the Company. He is also the Chairman of the Corporate Governance Committee. Mr. Feng graduated from Renmin University of China with his Master degree in philosophy and subsequently obtained his EMBA degree from China Europe International Business School. Before Mr. Feng joined Sinochem Group in 2000, he worked as General Manager of HR Department and Enterprise Development Department in China National Machinery Import and Export Corporation, and then became in charge of Genertec Industrial Corporation Limited. Over his 10 years in Sinochem, Mr. Feng had previously held various positions, in charge of the management of Sinochem Group's investment business, fluorine chemicals business, and non-banking financial businesses including financial leasing and trust. Mr. Feng was appointed as Assistant President of Sinochem Group in July 2007 and promoted as Vice President of Sinochem Group in January 2006. From 2008 to 2010, Mr. Feng had been appointed as Chairman and General Manager of Sinochem Lantian Corporation Limited., and Chairman of Zhejiang Int'l Group Corporation Limited., an affiliate of Sinochem Group. Mr. Feng served as a Director of Sinochem Corporation since May 2009 and had been appointed to the current position of the Company since July 2010. Mr. Feng has over 20 years of experience in corporate management and operations.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Harry YANG – Executive Director and Deputy General Manager

Mr. Harry YANG, aged 50, is an Executive Director and Deputy General Manager of the Company, mainly responsible for overseeing the Company's investor relations, legal, and logistics 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 centre, and was promoted to the present position in March 2006. Mr. Yang had served Sinochem Group for more than twenty 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 49, joined the Company as Non-executive Director in August 2010. Mr. Yang graduated from Tianjin University of Commerce with a Bachelor's degree in commercial enterprise management. He completed a course of enterprise management in University of Stuttgart in Germany from 1990 to 1993. 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.

DIRECTORS AND SENIOR MANAGEMENT

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 62, 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 currently serves on the Board of Directors of Canpotex Limited, an export marketing association composed of the three potash producers (including PotashCorp) in Saskatchewan, Canada, 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, and International Plant Nutrition Institute ("IPNI"), a global organization with initiatives addressing the world's growing need for food, fuel, fiber, and feed. 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 27 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 46, 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 is currently the senior director of International Sales Department (Fertilizer and Feed) of PCS Sales (USA), Inc.. Prior to that, she was the manager of International Sales Department, the director of International Sales Department (Fertilizer and Feed) of PCS Sales (USA), Inc. and the director of International Sales Department (Fertilizer and Feed) of PCS Sales (Canada), Inc. from January 2006 to June 2010, from July 2010 to December 2010, and from January 2011 to June 2012, 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 13 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 52, 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 21 years.

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 Harmonic Strait Financial Holdings Limited (formerly known as "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 an independent non-executive director of 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 54, 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 32 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 of Hong Kong Limited.

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

Mr. TSE Hau Yin, Aloysius, aged 65, 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 a former 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.

DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Mr. WANG Chuan – Deputy General Manager

Mr. WANG Chuan, aged 59, 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 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 50, 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 1998. 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. LU Fang Bin – Deputy General Manager

Mr. LU Fang Bin, aged 45, is Deputy General Manager of the Company. Mr. Lu graduated from Qinghua University in 1994 with a master degree of Chemical Engineering. Mr. Lu joined Sinochem Group in 1994 and once served in Sinochem Plastics Co., Ltd, SC Polymers Inc, Sinochem (USA) Inc. and served as deputy general manager and general manager in Sinochem (USA) Inc., as marketing director in Sinochem Lantian Co.,. Ltd. Mr. Lu joined the Company in June 2012 and was promoted to the present position since then.

Mr. LI Yang Jing – Deputy General Manager

Mr. LI Yang Jing, aged 40, 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 petroleum refining, 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. GAO Jian – Chief Financial Officer

Mr. GAO Jian, aged 42, is 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 38, 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. Currently, Mr. Lv is engaging in his EMBA courses in Qinghua University. 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 applicable corporate governance standards contained in relevant codes as set out in the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Compliance with the Corporate Governance Code

The Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules set out the principles of, requirements and recommendations for good corporate governance. It was amended as Corporate Governance Code and Corporate Governance Report effective on 1 April 2012 (referred to "Corporate Governance Code" hereunder). For the year ended 31 December 2012 and up to the date of this report, the Company has complied with the applicable code provisions in the Code on Corporate Governance Practices and the Corporate Governance Code, except for the deviations from the code provisions A.1.7, A.6.7 and E.1.2 as described below.

The code provision A.1.7 stipulates that, a board meeting should be held if a substantial shareholder or a director has a conflict of interest in a matter to be considered by the board which the board has determined to be material. In addition, independent non-executive directors who, and whose associates, have no material interest in the transaction should be present at such board meeting. During the year and up to the date of this report, the Board approved several connected transactions by circulation of written resolutions in lieu of physical board meeting, for which certain Directors who are nominated by the ultimate controlling or substantial shareholders of the Company, were regarded as having material interests therein. As the Directors of the Company are living and working in different countries which are far apart, adoption of written resolutions in lieu of physical board meetings allows the Board to make a decision relatively quicker in response to the rapid change in the fertilizer markets. Before formal execution of the written resolutions, the Directors had discussed the matters via emails and made amendments to the transactions as appropriate.

The code provision A.6.7 stipulates that, among others, the non-executive directors should attend general meetings of the listed issuer. Mr. Liu De Shu, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan, the Non-executive Directors of the Company, were unable to attend the annual general meeting of the Company held on 14 June 2012 ("2012 AGM") due to other essential business engagements.

The code provision E.1.2 provides that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. In the 2012 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 2012 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 2012 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2.

In addition, in order to promote the Company's continued commitment to high standards of corporate governance, the Board adopted a Board Diversity Policy on 28 March 2013 to comply with a new code provision on board diversity which will be effective from 1 September 2013 as included in the Corporate Governance Code.

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.

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 38 to 41 of this annual report.

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.

Appointment, re-election and removal of Directors

The current term of office for the Executive Directors and the Non-executive Directors (including the Independent Non-executive Directors) of the Company is fixed for 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.

Independence of the Board

The Board has received from each of the Independent Non-executive Directors a written annual confirmation of their independence ("Independence Confirmation") 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.

The Board has noticed that Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek, the Company's Independent Non-executive Directors, have served the Board for more than 12 years. Pursuant to code provision A.4.3 of the Corporate Governance Code, inter alia, having served the company for more than 9 years could be relevant to the determination of an independent non-executive directors' independence. In assessing the independence of Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek, the Board had confirmed their independence, and took into account the fact that both Mr. Ko and Dr. Tang have not engaged in any executive management of the Group, and have demonstrated their ability to provide an independent view to the Company's matters during their terms of office with the Company. The Board believes that Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek are independent with the Company and comply with the independence requirements of Rule 3.13 of the Listing Rules.

For the year ended 31 December 2012, 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 ultimate 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.

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 leadership of 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 material 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 flows of the Group for the year. In preparing the consolidated financial statements for the year ended 31 December 2012, 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.

Continuous professional development

The Company considers continuous professional development is important for Directors in maintaining up-to-date knowledge on the business operations of the Company as well as the regulations in the capital market. In this regard, the Company provided professional training to Directors, including a formal and comprehensive induction programme to the newly appointed Directors for the purpose of giving an overview of the business and operations of the Group and a proper understanding of his/her responsibilities and obligations under the Listing Rules, Corporate Governance Code and applicable laws and regulatory requirements; and also regular updates on new issues and/or changes in the regulatory environments.

During the year, the Company arranged and funded a seminar, which was conducted by a professional legal firm, on Directors' duties and responsibilities under Listing Rules, Corporate Governance Code and other laws and regulations. The seminar covered a broad range of topics including Directors' duties under common law, Hong Kong Companies Ordinance, Listing Rules and other relevant laws and regulations, new corporate governance rules, new statutory regime for disclosure of inside information, and introduction of consultation paper on trading halts. All Directors have attended the seminar.

In addition, the Company also provided regular updates to the Directors in respect of the business and operations of the Group through monthly reports; and the updates on the changes in Listing Rules, Corporate Governance Code and related regulatory requirements, if any.

Board meetings

For the year ended 31 December 2012, the Board totally held four meetings to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, investment projects, 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 at the Board meetings 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)*	4/4
Mr. Yang Lin	4/4
Dr. Stephen Francis Dowdle	4/4
Ms. Xiang Dandan	4/4
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	4/4
Dr. Tang Tin Sek	4/4
Mr. Tse Hau Yin, Aloysius	4/4

Various Committees of the Board of Directors

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 completed set of the latest terms of reference of the Audit Committee, which have been revised in accordance with the Corporate Governance Code became effective on 1 April 2012, are available on the Company's website. The current terms of reference of the Audit Committee are summarized in the following aspects, including but not limited to (1) responsible for the relationship with the external auditors including but not limited to review and monitor the independence and objectiveness of the external auditor and the effectiveness of audit procedures in accordance with the applicable standards; (2) reviewing the Group's financial information; and (3) overseeing the Group's financial reporting system and internal control procedures.

The Audit Committee held four meetings during the year ended 31 December 2012. The Chief Financial Officer and the external auditors 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, including those related to accounting records, financial accounts and internal control system;

3. reviewed the independence of the external auditor, considered and made recommendation to the Board on the change of external auditors and the corresponding audit fee for the year ended 31 December 2012;

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

5. reviewed the revised and latest terms of reference of the Audit Committee with reference to the Corporate Governance Code became effective on 1 April 2012;

6. 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, procedures and arrangements to enable employees to raise concerns about possible improprieties in financial reporting, internal control or other matters, and made sufficient communication with the management on related matters;

7. discussed the Group's internal audit plan and the related work with the Internal Audit Department;

8. met with the external auditors without the management's participation; and

9. reviewed the continuing connected transactions conducted in 2012.

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 completed set of the latest terms of reference of the Remuneration Committee, which have been revised in accordance with Corporate Governance Code became effective on 1 April 2012, are available on the Company's website. The current terms of reference of the Remuneration Committee are summarized in the following aspects, including but not limited to (1) making 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) reviewing and approving the Executive Directors' and senior management's remuneration proposals with reference to the corporate goals and objectives resolved by the Board; and (3) determining, 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 making recommendations to the Board on the remuneration of Non-executive Directors.

The Remuneration Committee met once during the year ended 31 December 2012. 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 rates of each of the committee members at the aforesaid meeting were as follows:

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

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 2011;

2. approved the remuneration package (including cash compensation and bonus scheme) of Executive Directors and senior management for the year 2012;

3. made recommendation to the Board in respect of the compensation proposal for Non-executive Directors and Independent Non-executive Directors for the year 2012;

4. made recommendation to the Board in respect of the cancellation of share options granted in 2007;

5. reviewed the revised and latest terms of reference of the Remuneration Committee with reference to the Corporate Governance Code became effective on 1 April 2012;

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 applicable, 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 2012, the Group had about 8,061 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 2012, the Group provided 23,552 hours of training in aggregate for about 2,568 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 completed set of the latest terms of reference of the Nomination Committee, which have been revised in accordance with the Corporate Governance Code became effective on 1 April 2012, are available on the Company's website. The current terms of reference of the Nomination Committee are summarized in the following aspects, including but not limited to (1) formulating nomination policy for the Board's consideration and implementing the Board's approved nomination policy; (2) determining the criteria to select and recommend candidates for directorship; (3) reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (4) identifying individuals suitably qualified to become Board members for Board's consideration on the selection of individuals nominated for directorships; and (5) making 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 2012. The Nomination Committee had also passed a proposal by circulation of written resolution during the year, and had presented the relevant proposal to the Board for review or approval, where applicable, in subsequent board meeting. The attendance rates of each of the committee members at the aforesaid meeting were as follows:

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

5. reviewed the revised and latest terms of reference of the Nomination Committee with reference to the Corporate Governance Code became effective on 1 April 2012;

6. reviewed the procedures for members/shareholders to propose a person for election as a director of the Company; and

7. formulated and adopted the nomination policy of the Company.

In addition, the Nomination Committee reviewed and approved in a meeting on 27 March 2013, inter alia, a Board Diversity Policy; and revised Nomination Policy to be submitted to the Board for approval, in order to comply with a new code provision on board diversity which will be effective from 1 September 2013 as included in the Corporate Governance Code.

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. Cheung Kar Mun, Cindy (Company Secretary) and Ms. Dong Jiao Jiao (Assistant to General Manager of Legal Department).

The completed set of the terms of reference of the Corporate Governance Committee are available on the Company's website. The current terms of reference of the Corporate Governance Committee are summarized in the following aspects, including but not limited to (1) developing and reviewing the corporate governance ("CG") principles and policies of the Company and making recommendations to the Board, and implementing the CG policies laid down by the Board; (2) reviewing and monitoring the CG policies and practices to ensure compliance with legal and regulatory requirements; (3) developing, reviewing and monitoring the code of conduct and guidelines in relation to CG matters applicable to the Company's Directors and employees; (4) reviewing the Company's compliance with the Corporate Governance Code and related rules; (5) preparing the annual CG Report; and (6) reviewing regularly the contribution required from Directors to perform their responsibilities to the Company, and the time commitments.

The Corporate Governance Committee met once during the year 31 December 2012. The attendance rates of each of the committee members at the aforesaid meeting were as follows:

	Attendance rate
Executive Directors	
Mr. Feng Zhi Bin *(Chairman)*	1/1
Mr. Harry Yang	1/1
Management	
Ms. Zhang Xiao Qian *(Note)*	1/1
Ms. Cheung Kar Mun, Cindy	1/1

Note: Ms. Zhang Xiao Qian ("Ms. Zhang") resigned as a member of the Corporate Governance Committee with effect on 28 February 2013. Ms. Dong Jiao Jiao was appointed as a member of the Corporate Governance Committee with effect on 28 February 2013 in place of Ms. Zhang.

The Corporate Governance Committee had completed the following work during the year:

1. formulated the terms of reference of the Corporate Governance Committee for subsequent Board approval;

2. designed and monitored the corporate governance work of the Company in compliance with relevant code provisions in the Corporate Governance Code became effective from 1 April 2012; and

3. reviewed and approved the disclosure in relation to the corporate governance standards of the Company in relevant reports.

Communication with Shareholders

Shareholders communication policy

During the year ended 31 December 2012, the Company has adopted the shareholders communication policy ("Shareholders Communication Policy") to ensure the shareholders, and, in appropriate circumstances, the investment community at large, are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders and the investment community to engage actively with Company. The Shareholders Communication Policy is available on the Company's website.

Enquiries of shareholders

Designated contacts and enquiry lines of the Company have been provided in the "Corporate Information" section of this annual report to enable the shareholders and the investment community to make any enquiry in respect of the Company. To the extent the requisite information of the Company is publicly available, shareholders and the investment community may at any time make a request for such information. Shareholders can also make enquiries with the Board directly at the general meetings.

General meetings

Annual general meeting is one of the principal channels for the Company to communicate with the shareholders. 2012 AGM of the Company was held on 14 June 2012, in which Mr. Feng Zhi Bin, the Executive Director and Chief Executive Officer of the Company, chaired the meeting on behalf of the Chairman of the Board. In addition, the external auditors of the Company and respective chairmen of the Audit, Remuneration and Nomination Committees of the Company attended the 2012 AGM and were available to answer relevant questions. The attendance rates of each of the Directors at the 2012 AGM were as follows:

	Attendance rate
Executive Directors	
Mr. Feng Zhi Bin *(Chief Executive Officer)*	1/1
Mr. Harry Yang	1/1
Non-executive Directors	
Mr. Liu De Shu *(Chairman)*	0/1
Mr. Yang Lin	0/1
Dr. Stephen Francis Dowdle	0/1
Ms. Xiang Dandan	0/1
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	1/1
Dr. Tang Tin Sek	1/1
Mr. Tse Hau Yin, Aloysius	1/1

Shareholders' rights

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, submit a signed written requisition, specifying the purpose (including any proposals), to the Board or the Company Secretary to require a special general meeting ("SGM") and deposit the requisition at the Company's principal place of business at Units 4601-4610, 46th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong; and such meeting shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionist(s), or any of them representing more than one half of the total voting rights of all of them, themselves may convene a SGM, but any SGM so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

In addition, shareholders shall propose a person for election as a Director of the Company. Details of the procedures for shareholders to propose a person for election as a Director of the Company are available on the Company's website.

External Auditor

The Group's external auditor is KPMG. 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 appointment of KPMG as the successor auditor of the Group for the year ended 31 December 2012 to substitute the retirement of Deloitte Touche Tohmatsu, and the corresponding audit fees estimation.

The audit fees paid or payable by the Group to the external auditors in respect of audit and other non-audit services for the year ended 31 December 2012 were as follows:

	For the year ended 31 December	
	2012	2011
Nature of services	***RMB'000***	*RMB'000*
Audit service (including audit of financial statements and other audit related projects)	**4,459**	4,756
Tax related service	**16**	109
Total	**4,475**	4,865

Financial Management

As an important part of corporate governance, the Group has been putting focus on the continuous improvement in financial management. In 2012, 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 risk, promoting the optimization of debt structure, and reducing the financing cost, 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 2012, 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 2012, 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, in consistent with the Company's strategy, the Company improved the professional service quality and internal supporting to merger and acquisition projects.

In the context of relatively tight domestic liquidity in 2012, 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, completed RMB1,000 million short terms bonds application ensuring the needs for funds by business operation and strategic investment while reducing general fund cost. 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 2012, 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 Corporate Governance Code 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

For years, the Group has been dedicated to building a scientific, intact and reasonable inner control and risk management system, so as to improve business management and risk prevention ability. During the year, the Group, according to related requirements of the Corporate Governance Code in the Listing Rules and Internal Control and Risk Management – A Basic Framework published by Hong Kong Institute of Certified Public Accountants ("HKICPA"), and applying the standards of Internal Control Framework of COSO committee and the Basic Code of Corporate Internal Control and its accompanying guidelines from five domestic ministries, carried out the evaluation work on internal control and risk management through adopting the approach combined with self assessment, onsite training and key point review; evaluated the key risk and control points on internal control of the Group one by one; comprehensively reviewed the design and effectiveness of execution of such control elements of internal control environment, risk assessment, control activities, information and communication, and internal supervision; and also summarized the internal control evaluation process, internal control defect identification and improvement measures, conclusion for effectiveness of internal control and other relevant matters.

1. Internal control: After 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 promoted risk management proactively, and continuously promoted the construction of risk management. Through establishing major risk control model, implementing risk evaluation and sorting the system of risk management, the Group improved its efforts in risk management system and major risk control constantly.

3. Control activities: The Group developed relevant control measures in response to corporate internal environment and risk evaluation results. The control measures fully covered major risks of its companies and focused on assessment of continuous risk and internal supervision, thus effectively ensuring that control methods and measures were implemented efficiently.

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

5. Internal supervision: The Group improved its corporate operation and management systems constantly and developed 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.

During the year, through inspection and evaluation on internal control system, management believed that the Group had relatively good internal control environment; we had indentified, evaluated and coped with risks we were confronted with systematically; we had established sound and perfect internal system and normative business processes; and possessed strong ability of information delivery and communication ability, and execution force of internal supervision. The system of internal control and risk management has reasonably secured the strategy promotion and current business development of the Group. In the future, the Group will, based on Basic Norms of Internal Control and its accompanying guidelines, continuously perfect internal control and risk management system, strengthen fine management, further improve the effectiveness of design and execution force of internal control, enhance supervision and inspection of internal control, and finally promote the sound and sustainable development of the Group.

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 regulations and requirements 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 relations' 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 2012, the work related to investor relations of the Company mainly consisted of the following:

1. In March 2012, the Company announced its 2011 annual results, and held press conference and analysts' meeting.

2. In August 2012, the Company announced its 2012 interim results, held press conference and analysts' meeting, and subsequently conducted non-deal road-shows to have face-to-face communicates with investors from Hong Kong and Europe.

3. In November 2012, the Company conducted reverse road-show, organizing more than 20 investors and analysts from well-known investment institutions in Hong Kong to visit Sinochem Yunlong Co., Ltd. located in Xundian, Yunnan.

Besides results announcement, road-shows and reverse road-show, 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 more than 300 visits or communications with the investment and analysis institutions through different means in 2012.

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 2012, the Group continued to adhere to the working guideline of "safety first, prevention priority, and comprehensive control"; implemented seriously the national regulations and requirements concerning safety input, training and education, and supervision and inspection; and achieved the planned goals of no major and above 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, the Group stuck to the philosophy of "security safety with iron hand" and identified HSE management as the seventh strategy of the Company; fully implemented safety risk deposit system in production subsidiaries on the basis of carrying through HSE and energy saving and emission reduction responsibilities of all levels of organizations; accelerated the introduction of HSE talents and strengthened the construction of HSE management team; revised and issued the company-level HSE Management Manual and matching managements system; clarified regular meeting and working mechanism of HSE committee; initiated the campaign of safe production month and enhanced HSE culture through multiple approaches; conducted the work of two-tickets and one-license, striving to be a company with no accident through anti-three-violations, and training and application of jab hazard analysis (JHA), in order to strengthen onsite execution force and help staff to identify and avoid operating risk, thus improving safety awareness; carried out HSE examination and evaluation in various forms, tracked the progress of treatment of hidden danger in time, and ensured the effectiveness of rectification of hidden danger; enhanced the emergency management, put on records of emergence plan in group-level, supervised and directed its companies to have rehearsals of emergency response; strengthened the management of occupational health, perfected related management regulations, and supervised its companies to implement the evaluation and check-up of occupational health; and intensified the input of environmental protection facilities to ensure the discharge of three wastes meet the standards of emission, constructed a safe and environment friendly enterprise and fulfilled the social responsibility actively.

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 2012.

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, the provision of technical research and development and services relating to the fertilizer business and products, and exploration and exploitation of phosphate mine, and production of monocalcium/monodicalcium phosphate.

An analysis of the Group's performance for the year by business segment is set out in note 4 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 84 of the annual report.

The Board recommended the payment of a final dividend of HK$0.0232 (equivalent to approximately RMB0.0187) per share for the year ended 31 December 2012 (2011: HK$0.0166, equivalent to approximately RMB0.0135, per share) to the shareholders, estimated to be HK$162,967,000 (equivalent to approximately RMB131,650,000), and the retention of the remaining profit in reserves.

Financial Summary

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

Major Customers and Suppliers

The aggregate turnover from the Group's five largest customers were less than 16% of the Group's total turnover for the year 2012. The aggregate purchase from the Group's five largest suppliers represented around 24% of the Group's total purchases for the year 2012, with the largest supplier contributing to 6% 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 16 to the consolidated financial statements.

Share Capital

Details of the movements in share capital of the Company for the year are set out in note 35 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 88 to 89 of the annual report.

Distributable Reserves of the Company

As at 31 December 2012, 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$183,912,000 (equivalent to approximately RMB149,134,000) (2011: HK$139,446,000, equivalent to approximately RMB113,049,000).

Donations

During the year ended 31 December 2012, the Group had made approximately RMB868,051 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

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. Feng Zhi Bin, Dr. Stephen Francis Dowdle and Mr. Tse Hau Yin, Aloysius will retire at the forthcoming annual general meeting of the Company and being eligible, offer themselves for re-election.

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 on pages 38 to 43 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 27 March 2013, Mr. Feng Zhi Bin, Executive Director and Chief Executive Officer of the Company, and Mr. Harry Yang, Executive Director of the Company, were entitled to the performance bonus payment of RMB2,726,692 and RMB1,630,200, respectively, determined with reference to the operating results of the Group and their respective individual performance in 2012. For information in relation to the emoluments of the Directors of the Company in 2012, please refer to note 12 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 became 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 2012, 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 2012, 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.

On 23 January 2012, all outstanding share options under the Old Share Option Scheme were expired and therefore were lapsed in accordance with the Old Share Option Scheme. On 14 June 2012, the Company had passed a resolution at a shareholders' meeting for the cancellation of all outstanding share options granted under the New Share Option Scheme. Reasons for the cancellation and effect on the Company were set out in the circular of the Company dated 15 May 2012. The New Share Option Scheme continues to be valid after the said cancellation of outstanding share options.

i. Particulars of the share option schemes of the Company are set out in note 36 to the consolidated financial statements.

ii. 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 2012 were as follows:

Old Share Option Scheme

Grantees	Date of grant	Exercisable period *(Note 1)*	Exercise price *HK$*	Number of share options: Outstanding at 1 January 2012	Exercised during the year *(Note 2)*	Lapsed during the year	Outstanding at 31 December 2012
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	2,103,000	(1,769,600)	(333,400)	–
				2,105,500	(1,769,600)	(335,900)	–

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$2.21.

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

New Share Option Scheme

Grantees	Date of grant	Exercisable period *(Note 4)*	Exercise price HK$	Number of share options: Outstanding at 1 January 2012	Lapsed during the year	Cancelled during the year *(Note 5)*	Outstanding at 31 December 2012
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)	–
Employees							
Employees	28 August 2007	28 August 2009 – 27 August 2013	4.990	1,772,728	(45,000)	(1,727,728)	–
Other eligible participants							
Former directors *(Note 7)*	28 August 2007	28 August 2009 – 27 August 2013	4.990	338,000	–	(338,000)	–
				2,530,728	(45,000)	(2,485,728)	–

Note 4: 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 were exercisable on or after 28 August 2009;

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

(iii) a further 25% of the share options granted were exercisable on or after 28 August 2010, and the remaining 25% of the share options granted were 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.

According to the New Share Option Scheme, all unexercised share options will expire on 28 August 2013.

Note 5: 2,485,728 outstanding share options were cancelled upon approval by shareholders in the annual general meeting of the Company held on 14 June 2012.

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

Note 7: 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 2012, 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 2012, 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	52.65%
Sinochem Corporation *(Note 1)*	3,698,660,874	52.65%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") *(Note 2)*	3,698,660,874	52.65%
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 2012.

Directors' Interests in Significant Contracts

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 2012, 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 2012, 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 2012, 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. Newly Conducted/Renewed Continuing Connected Transactions in 2012

For the year ended 31 December 2012, the Group newly conducted/renewed the following continuing connected transactions, which are subject to reporting and announcement requirements under Chapter 14A of the Listing Rules.

(1) Financial Service Framework Agreement between the Company and Sinochem Finance

As disclosed in the announcement dated 21 December 2009, the Company and Sinochem Finance entered into the Former Financial Services Framework Agreement of the same date, inter alia, continuing connected transactions under the Former Financial Services Framework Agreement, which expired on 20 December 2012. On 13 December 2012, the Company and Sinochem Finance entered into a Financial Services Framework Agreement under which Sinochem Finance provides financial services to the Group. The agreement shall be effective from 21 December 2012 to 31 December 2013 (including both days). 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, buyer financing services, settlement services, provision of guarantees, internet banking service 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 interests 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 Corporation (an indirect controlling shareholder of the Company), and accordingly, Sinochem Finance is 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 Financial Services Framework Agreement will constitute continuing connected transactions of the Company. As the applicable percentage ratios (other than the profits ratio) of each of the transaction amount of the Deposit Services and the other financial services (save for the provision of loans to the Group) if aggregated on an annual basis under the Financial Services Framework Agreement exceed 0.1% but less than 5%, the Deposit Services and the other financial services (save for the provision of loans to the Group) and the proposed transaction caps for both are subject to the reporting and announcement but are exempt from the independent shareholders' approval requirements under the Listing Rules.

Under the Financial Services Framework Agreement, the maximum amount on the outstanding balance of deposits and other financial services (save for the provision of loans to the Group) the Company sets are as follows:

(i) In respect of the deposit services, the Company expects that the maximum amount on the outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance, on a daily basis, will not exceed RMB450 million during the term of the Financial Services Framework Agreement. The cap has been estimated on the basis of several factors including (a) the capital management strategy of the Group; and (b) the business development and financial needs of the Group. The maximum amount refers to the maximum daily outstanding balance during the term of the Financial Services Framework Agreement, and is not cumulative in nature; and

(ii) In respect of the other financial services provided by Sinochem Finance, i.e., arrangement of entrustment loans, commercial bills of exchange services, buyer financing services, settlement services, provision of guarantees at the request of any member of the Group, internet banking service, the Company expects that the transaction amount in relation to these categories will not exceed RMB10 million. The cap has been estimated on the basis of several factors including (a) the capital management strategy of the Group; (b) the business development and financial needs of the Group; and (c) that the transaction amount in relation to the aforesaid categories for the period from 21 December 2009 to 31 December 2009, one year ended 31 December 2010, one year ended 31 December 2011 and the period from 1 January 2012 to 12 December 2012 are nil, RMB2.10 million, RMB2.14 million and RMB2.25 million respectively.

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.

As the loan provided to the Group by Sinochem Finance (excluding entrustment loans) constitutes 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, pursuant to Rule 14A.65(4) of the Listing Rules, this continuing connected transactions involving the provision of loans are exempt from the reporting, announcement and independent shareholders' approval requirements.

For detailed information on the aforesaid transactions, please refer to the announcement dated 14 December 2012 published by the Company.

2. Continuing Connected Transactions in 2012

(2) Financial Services Framework Agreement between the Company and Sinochem Finance Signed in 2009

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 had been effective for three year from the date of its signing. Pursuant to the Framework Agreement, the Group had, based on its actual needs and wills, utilized 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, paid 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 were 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 did not exceed the service fee and interest payable on such services under the same terms obtainable from independent commercial banks. No service fee was 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 are 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 was calculated on the basis of several factors including (a) the capital management strategy of the Group; and (b) 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.

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

(3) 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.

(4) 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.

(5) 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.

3. The annual caps approved for and the actual transaction amount of continuing connected transactions of the Group for the year ended 31 December 2012 are set out below:

			For the year ended 31 December 2012	
Name of Transactions		**Currency**	**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	730,000	361,080
2.	Fertilizer Sales Co-operation Framework Agreement			
	(i) Sinochem Group imports from Sinochem Macao	USD	1,625,200	1,009,252
	(ii) Sinochem Fertilizer purchases from Sinochem Group	RMB	14,162,276	6,730,908
Continuing Connected Transactions exempted from Independent Shareholders' Approval Requirement but Subject to Reporting, Announcement and Annual Review Requirements				
3.	Outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance, pursuant to the Financial Services Framework Agreement of 2009	RMB	580,000	549,994
4.	Pursuant to the Financial Services Framework Agreement of 2012:			
	(i) Outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance	RMB	450,000	134,970
	(ii) Other financial services provided to the Group by Sinochem Finance i.e. arrangement of entrustment loans, commercial bills of exchange service, settlement services etc.	RMB	10,000	10
5.	Sinochem Macao purchases sulfate of potash magnesia and muriate potash from PCS Sales	USD	234,000	1,491

4. 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 2012 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.

5. 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

On 8 January 2012, the Group entered into a share purchase agreement (the "Agreement") to acquire 100% interests in 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. As at 31 December 2012, the balance of the consideration was RMB650,000,000, to be paid under the conditions for the payment under the Agreement. Xundian Lomon completed its amendments to the business registration documents on 19 March 2012, and became a subsidiary of the Group thereafter, and changed its name to Sinochem Yunlong Co., Ltd.

On 24 October 2012, Sinochem Fertilizer a subsidiary of the Company, Yangmei Pingyuan (formerly known as "Sinochem Pingyuan"), Yangmei Chemical and Pingyuan Juyuan entered into the capital increase agreement pursuant to which Yangmei Chemical agreed to inject a cash capital of RMB260 million into Yangmei Pingyuan. Details of the capital increase agreement included in the announcement of the Company dated 25 October 2012. Upon the completion of the capital increase, Yangmei Chemical holds 51% equity interests in Yangmei Pingyuan, while the equity interests in Yangmei Pingyuan held by Sinochem Fertilizer decreased from 75% to 36.75%. Yangmei Pingyuan has been reclassified from a subsidiary to an associate of the Group.

Save for the disclosures as above and in this report, the Company had no other major discloseable events during the year ended 31 December 2012.

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 2012.

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 52.

Retirement Benefits Scheme

Details of the retirement benefits scheme of the Group are set out in note 45 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 24 January 2013, Sinochem Fertilizer Co., Ltd ("Sinochem Fertilizer"), being a wholly-owned subsidiary of the Company, entered into a capital contribution agreement (the "Agreement") with Shijiazhuang Bolong Agricultural Products Trading Company Limited ("Shijiazhuang Bolong") and Sinochem Hebei Company Limited ("Sinochem Hebei"), being a wholly-owned subsidiary of Sinochem Corporation in relation to the establishment of Sinochem Shijiazhuang Agricultural Materials and Logistics Company Limited ("Sinochem Shijiazhuang Logistics") with a registered capital of RMB60 million. The details of the Agreement and the transaction were included in the announcement of the Company dated 24 January 2013.

Upon completion of the transaction under the Agreement, the registered capital of Sinochem Shijiazhuang Logistics will be owned as to 51% by Sinochem Fertilizer, 30% by Shijiazhuang Bolong and 19% by Sinochem Hebei. Upon completion of its formation, Sinochem Shijiazhuang Logistics will become a subsidiary of the Company and be consolidated in the consolidated financial statements of the Group in accordance with its articles of association and the applicable accounting policies.

Since the transaction date, Sinochem Shijiazhuang Logistics has received the capital of RMB40 million.

Auditor

At the annual general meeting of the Company held on 14 June 2012, Deloitte Touche Tohmatsu retired as the auditors of the Company and KPMG was appointed as the successor auditor of the Company.

The consolidated financial statements of the Group for the year ended 31 December 2012 have been audited by KPMG who shall retire and, being eligible, shall offer themselves for re-appointment. A proposal on the re-election of KPMG as auditors of the Company is to be made by the Board of Director at the forthcoming annual general meeting of the Company.

For and on behalf of the Board

Liu De Shu
Chairman

Hong Kong, 28 March 2013

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS 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 (together "the Group") set out on pages 84 to 171, which comprise the consolidated statement of financial position as at 31 December 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, 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 judgement, 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 the 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.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

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 2012 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.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Turnover	4(c)	**41,190,137**	36,684,963
Cost of sales		**(38,812,335)**	(34,595,274)
Gross profit		**2,377,802**	2,089,689
Other income and gains	5	**189,819**	169,122
Selling and distribution expenses		**(804,163)**	(715,425)
Administrative expenses		**(629,873)**	(546,039)
Other expenses and losses		**(141,025)**	(217,895)
Share of results of associates		**235,920**	201,261
Share of results of jointly controlled entities		**68,437**	74,966
Finance costs	6	**(366,726)**	(341,773)
Changes in fair value of derivative financial instruments		**–**	46,923
Impairment loss on goodwill		**–**	(265,357)
Gain on deemed disposal of interest in a subsidiary	7	**92,174**	–
Gain on deemed dilution of interest in an associate	8	**–**	341,029
Profit before taxation	9	**1,022,365**	836,501
Income tax expense	10(a)	**(98,711)**	(150,717)
Profit for the year		**923,654**	685,784
Other comprehensive expense			
Exchange differences on translation of financial statements of overseas subsidiaries		**(6,530)**	(198,135)
Changes in fair value of available-for-sale investments		**3,286**	(70,956)
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
Income tax relating to components of other comprehensive expense		**–**	(1,215)
Other comprehensive expense for the year, net of tax	11	**(3,244)**	(194,487)
Total comprehensive income for the year		**920,410**	491,297

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Profit for the year attributable to:			
– Owners of the Company		**878,369**	677,968
– Non-controlling interests		**45,285**	7,816
		923,654	685,784
Total comprehensive income attributable to:			
– Owners of the Company		**875,125**	483,481
– Non-controlling interests		**45,285**	7,816
		920,410	491,297
Earnings per share			
Basic (RMB)	*15*	**0.1250**	0.0966
Diluted (RMB)	*15*	**0.1250**	0.0922

The notes on pages 92 to 171 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 14.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012
(Expressed in Renminbi)

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Non-current assets			
Fixed assets			
– Property, plant and equipment	*16*	**3,162,737**	4,536,843
– Investment properties	*17*	**14,600**	14,600
		3,177,337	4,551,443
Prepaid lease payments	*18*	**520,229**	606,111
Mining rights	*19*	**734,458**	–
Goodwill	*20*	**820,162**	289,017
Other long-term assets	*21*	**11,299**	32,600
Interests in associates	*22*	**8,177,561**	7,754,435
Interests in jointly controlled entities	*23*	**586,429**	718,877
Available-for-sale investments	*24*	**372,051**	173,367
Advance payments for acquisition of property, plant and equipment		**23,725**	40,376
Deferred tax assets	*34*	**674,865**	756,462
		15,098,116	14,922,688
Current assets			
Inventories	*25*	**5,375,898**	7,464,114
Trade and bills receivables	*26*	**1,158,659**	1,708,761
Other receivables and advance payments	*27*	**2,274,986**	2,330,679
Loans to an associate	*28*	**1,297,284**	–
Prepaid lease payments	*18*	**11,977**	13,380
Other deposits	*29*	**858,200**	1,649,088
Pledged bank deposits	*30*	**2**	7,435
Bank balances and cash	*30*	**334,682**	302,345
		11,311,688	13,475,802
Current liabilities			
Trade and bills payables	*31*	**3,564,875**	5,531,629
Other payables and receipt in advance	*32*	**3,784,384**	3,858,148
Interest-bearing borrowings – due within one year	*33*	**1,577,724**	2,349,358
Tax liabilities		**24,839**	9,487
		8,951,822	11,748,622
Net current assets		**2,359,866**	1,727,180
Total assets less current liabilities		**17,457,982**	16,649,868

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2012
(Expressed in Renminbi)

		As at 31 December	
		2012	2011
	Note	***RMB'000***	*RMB'000*
Non-current liabilities			
Interest-bearing borrowings – due after one year	*33*	**2,885,085**	3,072,008
Deferred income		**140,391**	149,937
Deferred tax liabilities	*34*	**271,945**	59,040
Other long-term liabilities		**37,928**	–
		3,335,349	3,280,985
NET ASSETS		**14,122,633**	13,368,883
CAPITAL AND RESERVES			
Issued equity	*35*	**8,267,384**	8,264,318
Reserves		**5,534,383**	4,769,483
Total equity attributable to owners of the Company		**13,801,767**	13,033,801
Non-controlling interests		**320,866**	335,082
TOTAL EQUITY		**14,122,633**	13,368,883

The consolidated financial statements on pages 84 to 171 were approved and authorized for issue by the board of directors on 28 March 2013 and are signed on its behalf by:

Liu Deshu
Director

Feng Zhibin
Director

The notes on pages 92 to 171 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012
(Expressed in Renminbi)

	Attributable to owners of the Company											
	Issued equity RMB'000	Merger reserve RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory reserve RMB'000 (note c)	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Other reserve RMB'000 (note d)	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
Balance at 1 January 2011	8,260,977	255,531	485,551	384,071	(3,648)	8,032	48,924	(531,830)	3,696,656	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 *(note d)*	–	–	–	–	–	–	6,960	–	–	6,960	–	6,960
Lapse of share options	–	–	–	–	–	(860)	–	–	860	–	–	–
Exercise of share options	2,973	–	–	–	–	(635)	–	–	–	2,338	–	2,338
Maintenance and production fund *(note d)*	–	–	–	–	–	–	4,320	–	(4,320)	–	–	–
Dividends approved in respect of the previous year	–	–	–	–	–	–	–	–	(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)
Balance at 31 December 2011 and 1 January 2012	**8,264,318**	**255,531**	**486,112**	**384,071**	**–**	**6,537**	**60,204**	**(729,965)**	**4,306,993**	**13,033,801**	**335,082**	**13,368,883**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**878,369**	**878,369**	**45,285**	**923,654**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**3,286**	**–**	**–**	**(6,530)**	**–**	**(3,244)**	**–**	**(3,244)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**3,286**	**–**	**–**	**(6,530)**	**878,369**	**875,125**	**45,285**	**920,410**
Energy saving and emission reduction fund *(note d)*	**–**	**–**	**–**	**–**	**–**	**–**	**2,560**	**–**	**–**	**2,560**	**–**	**2,560**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**(5,883)**	**–**	**–**	**5,883**	**–**	**–**	**–**
Exercise of share options	**3,066**	**–**	**–**	**–**	**–**	**(654)**	**–**	**–**	**–**	**2,412**	**–**	**2,412**
Maintenance and production fund *(note d)*	**–**	**–**	**–**	**–**	**–**	**–**	**29,848**	**–**	**(29,848)**	**–**	**–**	**–**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(94,544)**	**(94,544)**	**–**	**(94,544)**
Distributions to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,000)**	**(12,000)**
Deemed disposal of interest in a subsidiary	**–**	**–**	**–**	**(17,587)**	**–**	**–**	**–**	**–**	**–**	**(17,587)**	**(47,501)**	**(65,088)**
Balance at 31 December 2012	**8,267,384**	**255,531**	**486,112**	**366,484**	**3,286**	**–**	**92,612**	**(736,495)**	**5,066,853**	**13,801,767**	**320,866**	**14,122,633**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2012
(Expressed in Renminbi)

Note:

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, Sinochem Group, and difference between the carrying amount of non-controlling interests acquired and the fair value of consideration paid.

c. Statutory reserve comprises 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.

d. Other reserve comprises the fund received which can only be utilized for energy saving and emission reduction projects, and the maintenance and production fund appropriated/utilized in accordance to relevant PRC regulations on certain enterprises.

The notes on pages 92 to 171 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012
(Expressed in Renminbi)

	2012 *RMB'000*	2011 *RMB'000*
Operating activities		
Profit before taxation	**1,022,365**	836,501
Adjustments for:		
Share of results of jointly controlled entities	**(68,437)**	(74,966)
Share of results of associates	**(235,920)**	(201,261)
Dividend income from available-for-sale investments	**(1,797)**	(2,666)
Write-off of payables	**(27,844)**	(129)
Release of deferred income	**(11,757)**	(9,198)
Interest income from bank deposits	**(6,728)**	(6,911)
Interest income from other deposits	**(53,456)**	(92,524)
Finance costs	**366,726**	341,773
Gain on deemed disposal of interest in a subsidiary	**(92,174)**	–
Gain on deemed dilution of interest in an associate	**–**	(341,029)
Depreciation of property, plant and equipment	**410,116**	397,218
Impairment on property, plant and equipment	**–**	81,323
Loss on disposal of property, plant and equipment	**1,475**	11,013
Release of prepaid lease payments	**22,390**	22,987
Amortization of mining rights	**22,801**	–
Amortization of other long-term assets	**15,301**	14,375
Reversal of allowance provided on trade receivables	**–**	(16,008)
Write-down/(reversal) of other receivables	**600**	(4,016)
Write-down of inventories	**86,461**	55,257
Impairment loss on available-for-sale investments	**–**	69,073
Impairment loss on goodwill	**–**	265,357
Changes in fair value of derivative financial instruments	**–**	(46,923)
Cumulative loss recognized in profit or loss upon disposal of available-for-sale investments	**–**	6,746
Operating cash flows before movements in working capital	**1,450,122**	1,305,992
Decrease/(increase) in inventories	**1,997,087**	(2,400,846)
Decrease in trade and bills receivables	**560,858**	1,090,830
Increase in other receivables and advance payments	**(47,638)**	(376,236)
Increase in deferred income	**10,608**	1,500
(Decrease)/increase in trade and bills payables	**(1,545,246)**	3,018,100
(Decrease)/increase in other payables and receipt in advance	**(335,393)**	1,389,039
Cash generated from operations	**2,090,398**	4,028,379
Income tax paid	**(28,228)**	(29,435)
Net cash generated from operating activities	**2,062,170**	3,998,944

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2012
(Expressed in Renminbi)

	Note	2012 RMB'000	2011 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(376,072)**	(218,288)
Additions of prepaid lease payments		**(2,361)**	(94,821)
Proceeds from disposals of property, plant and equipment		**14,545**	27,928
Acquisition of a subsidiary		**(692,962)**	350
Addition to investment in a jointly controlled entity		**–**	(80,000)
Acquisition of an available-for-sale investment		**–**	(4,000)
Acquisition of other long-term assets		**(7,753)**	(6,532)
Placement of other deposits		**(23,778,500)**	(33,957,300)
Proceeds from withdrawal of other deposits		**24,569,388**	32,358,312
Interest received from bank deposits		**6,728**	6,911
Interest received from other deposits		**42,089**	91,227
Withdrawal of pledged bank deposits		**7,433**	15,203
Dividends received from associates		**23,048**	–
Dividends received from jointly controlled entities		**5,502**	25,575
Dividends received from available-for-sale investments		**1,797**	2,666
Deemed disposal of interest in a subsidiary		**(17,608)**	–
Net cash used in investing activities		**(204,726)**	(1,832,769)
Financing activities			
Repayment of borrowings		**(11,563,609)**	(9,916,003)
Proceeds from new borrowings		**10,194,089**	8,847,445
Proceeds from exercise of options		**2,412**	2,338
Acquisition of non-controlling interests		**–**	(1,943)
Interests paid		**(365,993)**	(304,421)
Dividends paid		**(94,544)**	(64,171)
Energy-saving and emission reduction fund received		**2,560**	6,960
Redemption of convertible loan notes		**–**	(656,572)
Net cash used in financing activities		**(1,825,085)**	(2,086,367)
Net increase in cash and cash equivalents		**32,359**	79,808
Cash and cash equivalents at 1 January	30	**302,345**	223,317
Effect of foreign exchange rate changes		**(22)**	(780)
Cash and cash equivalents at 31 December	30	**334,682**	302,345

The notes on pages 92 to 171 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

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 immediate holding company is Sinochem Hong Kong (Group) Company Limited (incorporated in Hong Kong) and its ultimate holding company is Sinochem Group ("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 principal subsidiaries are set out in note 43.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets are stated at their fair value as explained in the accounting policies set out below:

– investment property (see note 2(h));

– financial instruments classified as available-for-sale securities (see note 2(g)).

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of preparation of the financial statements (continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

The financial information relating to the financial year ended 31 December 2011 is audited by the processor auditors, Deloitte Touche Tohmatsu, who have expressed an unqualified opinion on those financial statements in their report dated 22 March 2012.

(c) Application of new and revised HKFRSs

The HKICPA has issued a few amendments to HKFRSs, which are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKFRS 7, *Financial instruments: Disclosures – Transfers of financial assets*
- Amendments to HKAS 12, *Income taxes – Deferred tax: Recovery of underlying assets*

These developments 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.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Application of new and revised HKFRSs (continued)

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2012 and which have not been early adopted in these financial statements. The amendments, new standards and interpretation which may be relevant to the Group are listed as follows:

	Effective for accounting periods beginning on or after
Amendments to HKAS 1, *Presentation of Financial Statements* *"Presentation of items of other comprehensive income"*	1 July 2012
Amendments to HKFRS 7, *Financial Instruments: Disclosures* *"Disclosures – Offsetting financial assets and financial liabilities"*	1 January 2013
HKFRS 10, *Consolidated Financial Statements*	1 January 2013
HKFRS 11, *Joint Arrangements*	1 January 2013
HKFRS 12, *Disclosure of interests in other entities*	1 January 2013
HKFRS 13, *Fair Value Measurement*	1 January 2013
Revised HKAS 19, *Employee Benefits*	1 January 2013
HKAS 28, *Investments in Associates and Joint Ventures*	1 January 2013
HK(IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*	1 January 2013
Annual Improvements to HKFRSs 2009-2011 Cycle	1 January 2013
Amendments to HKAS 32, *Financial Instruments: Presentation* *"Offsetting financial assets and financial liabilities"*	1 January 2014
HKFRS 9, *Financial Instruments*	1 January 2015

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Application of new and revised HKFRSs (continued)

HKFRS 9 Financial Instruments (continued)

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 Group is in the process of making an assessment of the impact that will result from adopting the amendments, new standards and interpretations issued by the HKICPA which are not yet effective for the accounting period ended 31 December 2012. So far the Group believes that the adoption of these amendments, new standards and interpretations is unlikely to have a significant impact on its financial position and the results of operations.

(d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Subsidiaries and non-controlling interests (continued)

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognized.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate or jointly controlled entity (see note 2(e)).

(e) Associates and jointly controlled entities

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(f) and (n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognized in profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognized in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associates or the jointly controlled entities, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associates or the jointly controlled entities.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates and jointly controlled entities (continued)

Unrealized profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the investee, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in profit or loss.

When the Group ceases to have significant influence over an associate or joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognized in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognized at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(g)) or, when appropriate, the cost on initial recognition of an investment in an associate.

(f) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognized immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(n)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Other investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognized in profit or loss as incurred. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in profit or loss. The net gain or loss recognized in profit or loss does not include any dividends or interest earned on these investments as these are recognized in accordance with the policies set out in notes 2(x)(iii) and (iv).

Dated debt securities that the Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated at amortized cost less impairment losses (see note 2(n)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognized in the statement of financial position at cost less impairment losses (see note 2(n)).

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve, except foreign exchange gains and losses resulting from changes in the amortized cost of monetary items such as debt securities which are recognized directly in profit or loss. Dividend income from these investments is recognized in profit or loss in accordance with the policy set out in note 2(x)(iii) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in profit or loss in accordance with the policy set out in note 2(x)(iv). When these investments are derecognized or impaired (see note 2(n)), the cumulative gain or loss is reclassified from equity to profit or loss.

Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Investment property

Investment properties are buildings which are owned or held under a leasehold interest (see note 2(l)) to earn rental income and/or for capital appreciation.

Investment properties are stated at fair value unless their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognized in profit or loss. Rental income from investment properties is accounted for as described in note 2(x)(ii).

(i) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(n)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(z)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives other than mining structures.

Mining structures (including the main and auxiliary mine shafts and underground tunnels) are depreciated on the units of production method utilizing only recoverable coal reserves in the depletion base.

The estimated useful lives of property, plant and equipment are as follows:

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(n)). Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

(k) Mining rights

Mining rights are stated at cost less accumulated amortization and impairment losses (see note 2(n)) and are amortized based on the units of production method utilizing only recoverable reserves as the depletion base.

(l) 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.

(m) Leasehold land and other long-term assets

Leasehold land under operating leases represents land use rights paid to the relevant government authorities. Land use rights are carried at cost less the accumulated amount charged to expense and impairment losses (see note 2(n)). The cost of leasehold land under operating leases is charged to expenses on a straight-line base over the respective periods of the rights.

Other long-term assets mainly represent activators held for use in the production of goods which are stated at cost less subsequent accumulated amortization and accumulated impairments losses. Amortization is provided using the straight-line method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortized cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganization;
- significant changes in the technological market economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists any impairment loss is determined and recognized as follows:

- For investments in subsidiaries, associates and jointly controlled entities, the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(n)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(n)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of assets (continued)

(i) Impairment of investments in debt and equity securities and other receivables (continued)

– For trade and other current receivables and other financial assets carried at amortized cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

– For available-for-sale securities, the cumulative loss that has been recognized in the investment revaluation reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognized in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortization) and current fair value, less any impairment loss on that asset previously recognized in profit or loss.

  Impairment losses recognized in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognized in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognized. Reversals of impairment losses in such circumstances are recognized in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognized in respect of trade debtors and bills receivable, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognized in profit or loss.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of assets (continued)

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

– property, plant and equipment;

– leasehold land under operating lease;

– mining rights;

– other long-term assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

(iii) Interim financial reporting and impairment

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, *Interim financial reporting*, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(n)(i) and (ii)).

Impairment losses recognized in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognized in other comprehensive income and not profit or loss.

(o) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the moving weighted-average method, and comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(p) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost using the effective interest method, less allowance for impairment of doubtful debts (see note 2(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Interest-bearing borrowings

Interest-bearing borrowings are recognized initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between the amount initially recognized and redemption value being recognized in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Trade and other payables

Trade and other payables are initially recognized at fair value. Trade and other payables are subsequently stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(t) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

(u) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share-based payments

The fair value of share options granted to employees is recognized as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the applicable fair valuation models taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) Employee benefits (continued)

(ii) Share-based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognized in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognized as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognized in the share option reserve until either the option is exercised (when it is transferred to the issued equity) or the option expires (when it is released directly to retained profits).

(v) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in profit or loss except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilized, are recognized. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilized.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Income tax (continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 2(h), the amount of deferred tax recognized is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(x) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in profit or loss as follows:

(i) Sale of goods

Revenue is recognized when goods are delivered at the customers' premise which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognized in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognized in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

(iii) Dividends

– Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

– Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognized as it accrues using the effective interest method.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Revenue recognition (continued)

(v) Government grants

Government grants are recognized in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognized as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in profit or loss over the useful life of the asset by way of reduced depreciation expense.

(y) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognized in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into Renminbi at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognized.

(z) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of that asset.

The capitalization of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(aa) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group; or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(bb) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies which are described in note 2, 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 2012, the carrying amount of inventories is RMB5,375,898,000 (2011: RMB7,464,114,000).

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 2012, the carrying amount of goodwill is RMB820,162,000 (2011: RMB289,017,000). Details of the recoverable amount calculation are disclosed in note 20.

Impairment of interest in associates

As at 31 December 2012, the carrying amount of interests in associates is RMB8,177,561,000 (2011: RMB7,754,435,000). 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.

3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Realizability of deferred tax assets

As at 31 December 2012, a deferred tax asset of RMB630,524,000 (2011: RMB683,674,000) 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 RMB693,964,000 (2011: RMB943,459,000) due to the unpredictability of future profit streams. The realizability 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.

4 SEGMENT REPORTING

The Group's operating segments based on information reported to the chief operating decision maker (the "CODM") for the purpose of resource allocation and performance assessment are as follows:

- Marketing: sourcing and distribution of fertilizers and agricultural related products

- Production: production and sales of fertilizers

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit represents the profit earned by each segment without taking into account of unallocated expenses/income, share of results of associates and jointly controlled entities, changes in fair value of derivative financial instruments and finance costs. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment. In addition, the CODM also regularly review the segment information in relation to the share of results of associates and the share of results of jointly controlled entities.

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 interests in associates, interests in jointly controlled entities, available-for-sale investments, deferred tax assets and other unallocated assets; and

- All liabilities are allocated to operating segments other than borrowings, current and deferred tax liabilities and other unallocated liabilities.

4 SEGMENT REPORTING (continued)

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

2012

	Marketing RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
External revenue	34,855,772	6,334,365	–	41,190,137
Internal revenue	372,475	2,111,168	(2,483,643)	–
Segment revenue	35,228,247	8,445,533	(2,483,643)	41,190,137
Segment gross profit	1,397,061	980,741	–	2,377,802
Segment profit	531,148	438,802	–	969,950
Share of results of associates	103	235,817	–	235,920
Share of results of jointly controlled entities	284	68,153	–	68,437
Unallocated expenses				(133,967)
Unallocated income				248,751
Finance costs				(366,726)
Profit before taxation				1,022,365
Assets				
Segment assets	7,314,073	7,597,626	–	14,911,699
Interests in associates	16,433	8,161,128	–	8,177,561
Interests in jointly controlled entities	2,671	583,758	–	586,429
Available-for-sale investments				372,051
Deferred tax assets				674,865
Other unallocated assets				1,687,199
Consolidated total assets				26,409,804
Liabilities				
Segment liabilities	6,305,294	1,281,692	–	7,586,986
Deferred tax liabilities				271,945
Other unallocated liabilities				4,428,240
Consolidated total liabilities				12,287,171

4 SEGMENT REPORTING (continued)

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

2011

	Marketing *RMB'000*	Production *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue				
External revenue	30,724,278	5,960,685	–	36,684,963
Internal revenue	212,907	2,719,977	(2,932,884)	–
Segment revenue	30,937,185	8,680,662	(2,932,884)	36,684,963
Segment gross profit	1,351,498	738,191	–	2,089,689
Segment profit	684,061	105,000	–	789,061
Share of results of associates	173	201,088	–	201,261
Share of results of jointly controlled entities	78	74,888	–	74,966
Unallocated expenses				(102,670)
Unallocated income				168,733
Finance costs				(341,773)
Changes in fair value of derivative financial instruments				46,923
Profit before taxation				836,501
Assets				
Segment assets	7,906,052	9,126,982	–	17,033,034
Interests in associates	16,680	7,737,755	–	7,754,435
Interests in jointly controlled entities	2,387	716,490	–	718,877
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

4 SEGMENT REPORTING (continued)

(b) Other segment information

2012

	Marketing *RMB'000*	Production *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit and segment assets:				
Additions to non-current assets	16,975	1,780,568	23	1,797,566
Write-down of other receivables	–	(600)	–	(600)
Depreciation and amortization	(10,865)	(437,341)	(12)	(448,218)
Release of prepaid lease payments	(65)	(22,325)	–	(22,390)
Write-down of inventories	(64,752)	(21,709)	–	(86,461)
Gain/(loss) on disposal of property, plant and equipment	141	(1,616)	–	(1,475)
Gain on deemed disposal of interest in a subsidiary	–	92,174	–	92,174
Write-off of payables	2,434	25,410	–	27,844

4 SEGMENT REPORTING (continued)

(b) Other segment information (continued)

2011

	Marketing *RMB'000*	Production *RMB'000*	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
Reversal of allowance provided on trade receivables	–	16,008	–	16,008
Reversal 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)
Gain on deemed dilution of interest in an associate	–	341,029	–	341,029
Impairment loss on goodwill	–	(265,357)	–	(265,357)
Write-off of payables	1	128	–	129

4 SEGMENT REPORTING (continued)

(c) Revenue from major products

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

	2012	2011
	RMB'000	*RMB'000*
Potash	**9,732,212**	9,164,189
Nitrogen	**14,148,804**	12,446,459
Compound	**6,187,857**	6,401,861
Phosphate	**9,383,220**	7,438,971
MCP/MDCP	**542,238**	–
Others	**1,195,806**	1,233,483
	41,190,137	36,684,963

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

(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**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC	**39,180,122**	35,578,648	**14,035,375**	13,976,899
Others	**2,010,015**	1,106,315	**15,825**	15,960
	41,190,137	36,684,963	**14,051,200**	13,992,859

5 OTHER INCOME AND GAINS

	Note	2012 RMB'000	2011 RMB'000
Rental income		**3,851**	3,148
Dividend income from available-for-sale investments	*a*	**1,797**	2,666
Interest income from bank deposits		**6,728**	6,911
Interest income from other deposits		**53,456**	92,524
Government grants	*b*	**14,810**	3,404
Exchange gain		**–**	6,271
Release of deferred income		**11,757**	9,198
Compensation received		**14,241**	9,878
Write-off of payables		**27,844**	129
Sales of scrapped materials and raw materials		**17,323**	18,684
CDM income	*c*	**9,914**	–
Others		**28,098**	16,309
		189,819	169,122

Note:

a Amount represents dividend income from listed investments of RMB1,797,000 (2011: RMB1,488,000) and nil from unlisted investments (2011: RMB1,178,000).

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 CDM income represents the Group sells carbon credits known as Certified Emission Reductions ("CERs") which have been registered as Clean Development Mechanism ("CDM") projects with CDM Executive Board of the United Nations under the Kyoto Protocol.

6 FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on borrowings		
– wholly repayable within five years	**240,390**	200,773
– not wholly repayable within five years	**127,350**	117,188
Less: interest expense capitalized *(note)*	**(1,014)**	(1,913)
Interests on convertible loan notes	**–**	25,725
	366,726	341,773

Note: Borrowing costs capitalized during the year arose on the general borrowing pool and are calculated by applying a capitalization rate of 5.54% (2011: 5.47%) per annum to expenditure on qualifying assets.

7 GAIN ON DEEMED DISPOSAL OF INTEREST IN A SUBSIDIARY

During the year ended 31 December 2012, Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan", formally known as Sinochem Pingyuan Chemical Co., Ltd.), a non-wholly owned subsidiary of the Group, increased its paid-in capital by RMB260 million through the injection from a third party investor ("the Injection"), Yangmei Chemical Investment Co., Ltd., Yangquan Coal Industry Group Co., Ltd. ("Yangmei Chemical"). After the Injection, Yangmei Chemical obtained 51% equity interest in Yangmei Pingyuan and as a result, the Group's equity interest in Yangmei Pingyuan decreased from 75% to 36.75%.

The Group accounted for the decrease of equity interest in Yangmei Pingyuan as deemed disposal of interest in a subsidiary and recognized a gain of approximately RMB92,174,000 at the transaction date. The Group accounted for the remaining equity interest in Yangmei Pingyuan as interests in associates (see note 22).

8 GAIN ON DEEMED DILUTION OF INTEREST IN AN ASSOCIATE

During the year ended 31 December 2011, an associate of the Group, Qinghai Salt Lake Potash Co., Ltd. merged with Qinghai Salt Lake Industry Group Co., Ltd. (the "Merger"), and renamed as Qinghai Salt Lake Industry Co., Ltd. ("Salt Lake Industry"). The Group accounted for the reduction of equity interests in Salt Lake Industry resulted from the Merger as a deemed dilution in investment in an associate and recognized a gain of approximately RMB341,029,000 in the year ended 31 December 2011.

9 PROFIT BEFORE TAXATION

	Note	2012 RMB'000	2011 RMB'000
Director's emoluments	12	**9,532**	9,754
Other staff benefits	a	**730,821**	628,661
Total employee benefits expenses		**740,353**	638,415
Depreciation of property, plant and equipment		**410,116**	397,218
Impairment loss on property, plant and equipment		**–**	81,323
Release of prepaid lease payments		**22,390**	22,987
Amortization of mining rights		**22,801**	–
Amortization of other long-term assets		**15,301**	14,375
Auditors' remuneration		**4,459**	4,756
Operating lease charge – minimum lease payments	b	**47,021**	42,453
Direct operating expenses arising from investment properties that generate rental income		**290**	481
Reversal of allowance provided for trade receivables		**–**	(16,008)
Write-down/(reversal) of other receivables		**600**	(4,016)
Loss on disposal of property, plant and equipment		**1,475**	11,013
Impairment loss on goodwill		**–**	265,357
Impairment loss on available-for-sale investments		**–**	69,073
Cumulative loss recognized in profit or loss upon disposal of available-for-sale investments		**–**	6,746

Note:

a Contribution to retirement benefits scheme included in other staff benefits for the year ended 31 December 2012 is RMB75,347,000 (2011: RMB69,811,000).

Included in other staff benefits, the total employee benefits expenses of Yangmei Pingyuan (upon the disposal date) and Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong") (for the year ended 31 December 2012) are approximately RMB136,804,000 (2011: RMB132,562,000) and RMB62,176,000 (2011: Nil) respectively.

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

10 INCOME TAX EXPENSE

(a) Taxation charged to profit or loss:

	2012 RMB'000	2011 RMB'000
Provision for the year		
Hong Kong Profits Tax	**(9,646)**	(10,420)
PRC Enterprise Income Tax	**(29,726)**	(24,088)
	(39,372)	(34,508)
Over-provision in prior years		
PRC Enterprise Income Tax	**2,166**	–
Deferred tax		
Origination and reversal of temporary differences	**(61,505)**	(116,209)
	(98,711)	(150,717)

(i) The provision for Hong Kong Profits Tax for 2012 is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

(ii) The provision for the PRC Enterprise Income Tax is based on the statutory rate of 25% on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year, except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.

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

10 INCOME TAX EXPENSE (continued)

(b) Reconciliation between tax expense charged to profit or loss and accounting profit at applicable tax rates:

	2012 RMB'000	2011 RMB'000
Profit before taxation	**1,022,365**	836,501
Tax calculated at the applicable tax rate of 25%	**(255,591)**	(209,125)
Effect of different income tax rates	**79,385**	31,956
Tax effect of non-deductible expenses	**(4,541)**	(31,910)
Tax effect of non-taxable income	**8,010**	1,846
Tax effect of share of results of associates	**58,980**	50,315
Tax effect of share of results of jointly controlled entities	**17,109**	18,742
Effect of prior year's tax losses and deductible temporary differences utilized during the year	**504**	6,727
Effect of tax losses and deductible temporary difference not recognized	**(27,777)**	(38,186)
Tax effect of impairment loss on goodwill	**–**	(66,339)
Tax effect of gain on deemed disposal of interest in a subsidiary	**23,044**	–
Tax effect of gain on deemed dilution of interest in an associate	**–**	85,257
Over-provision in prior years	**2,166**	–
Income tax expense for the year	**(98,711)**	(150,717)

11 OTHER COMPREHENSIVE EXPENSE

Other comprehensive expense includes:

	2012	2011
	RMB'000	*RMB'000*
Exchange differences arising on translating foreign operations:		
– Exchange difference arising on translation	**(6,530)**	(198,135)
Available-for-sale investments:		
– Changes in fair value	**3,286**	(70,956)
– Reclassification adjustment for the cumulative loss included in profit or loss upon disposal	**–**	6,746
– Reclassification adjustment included in profit or loss upon impairment	**–**	69,073
	3,286	4,863
Income tax expense relating the component of other comprehensive expense (see below)	**–**	(1,215)
Other comprehensive expense (net of tax)	**(3,244)**	(194,487)

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

		2012			2011	
	Before- Tax amount	**Income tax credit/(expense)**	**Net-of-tax amount**	Before- tax amount	Income tax credit/(expense)	Net-of-tax amount
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Changes in fair value of available-for-sale investments	**3,286**	**–**	**3,286**	(70,956)	470	(70,486)
Reclassification adjustment for the cumulative gain included in profit or loss upon disposal of available-for-sale investments	**–**	**–**	**–**	6,746	(1,685)	5,061
	3,286	**–**	**3,286**	(64,210)	(1,215)	(65,425)

12 DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the directors for the year ended 31 December 2012 and 2011 were as follows:

2012

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(note a)*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Chairman					
Mr. LIU De Shu *(note c)*	–	–	–	–	–
Executive directors					
Mr. FENG Zhi Bin	–	1,887	2,727	33	4,647
Mr. Harry YANG *(note b)*	–	2,029	1,630	22	3,681
Non-executive directors					
Mr. YANG Lin *(note c)*	–	–	–	–	–
Dr. Stephen Francis DOWDLE *(note c)*	–	–	–	–	–
Ms. XIANG Dan Dan *(note c)*	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	379	–	–	–	379
Dr. TANG Tin Sek	379	–	–	–	379
Mr. TSE Hau Yin, Aloysius	446	–	–	–	446
	1,204	3,916	4,357	55	9,532

12 DIRECTORS' REMUNERATION (continued)

2011

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000 (note a)	Retirement benefits scheme contribution RMB'000	Total RMB'000
Chairman					
Mr. LIU De Shu *(note c)*	–	–	–	–	–
Executive directors					
Mr. FENG Zhi Bin	–	1,772	2,727	30	4,529
Mr. Harry YANG *(note b)*	–	1,903	1,941	–	3,844
Non-executive directors					
Mr. YANG Lin *(note c)*	–	–	–	–	–
Dr. Stephen Francis DOWDLE *(note c)*	–	–	–	–	–
Mr. Wade FETZER III *(resigned on 16 June 2011)*	148	–	–	–	148
Ms. XIANG Dan Dan *(note c)* *(appointed on 16 June 2011)*	–	–	–	–	–
Independent non-executive directors					
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 2012 and 2011.

b. During the year ended 31 December 2012, the Group paid RMB1,596,000 as salaries and other benefits (2011: RMB1,482,000) and paid RMB433,000 rental for housing (2011: RMB421,000) of Mr. Harry Yang, all of which are included in salaries and other benefits.

c. Mr. Liu De Shu, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dan Dan, being Non-executive Directors of the Company, had agreed to waive their director's fee of HK$385,000 each (equivalent to approximately RMB312,000) for the year ended 31 December 2012.

Director's fee waived by Mr. Liu De Shu, Mr. Yang Lin and Dr. Stephen Francis Dowdle were HK$385,000 each (equivalent to approximately RMB320,000) and director's fee waived by Ms. Xiang Dan Dan was HK$203,500 (equivalent to approximately RMB173,000)) for the year ended 31 December 2011.

13 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2011: two) were directors of the Company, whose emoluments are disclosed in note 12. The emoluments of the remaining three (2011: three) individuals were as follows:

	2012	2011
	RMB'000	*RMB'000*
Salaries and other benefits	**2,106**	2,047
Performance related incentive payments	**3,798**	2,574
Retirement benefits scheme contribution	**99**	81
	6,003	4,702

The emoluments were within the following bands:

	2012	2011
	Number of individuals	*Number of individuals*
Nil to HK$1,000,000	**–**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**1**	2
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	–

14 DIVIDENDS

	2012 *RMB'000*	2011 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.0166, equivalent to approximately RMB0.0135 per share (2011: HK$0.0110, equivalent to approximately RMB0.0091 per share)	**94,544**	64,171
Final dividend proposed after the end of the reporting period of HK$0.0232, equivalent to approximately RMB0.0187 per share (2011: HK$0.0166, equivalent to approximately RMB0.0135 per share)	**131,650**	94,657

The final dividend of HK$0.0232, equivalent to approximately RMB0.0187 (2011: HK$0.0166, equivalent to approximately RMB0.0135) per share, total dividend of approximately RMB131,650,000 (2011: approximately RMB94,657,000) in respect of the year ended 31 December 2012 has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

15 EARNINGS PER SHARE

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

	2012	2011
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share	**878,369**	677,968
Effect of dilutive potential ordinary shares:		
– Interest expense on convertible loan notes	**–**	25,725
– Changes in fair value of derivative financial instruments	**–**	(46,923)
Earnings for the purpose of diluted earnings per share	**878,369**	656,770

	2012	2011
	'000 shares	*'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**7,024,404**	7,021,808
Effect of dilutive potential ordinary shares from:		
– Share options *(note 36)*	**18**	970
– convertible loan notes	**–**	99,591
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**7,024,422**	7,122,369

16 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipments RMB'000	Motor vehicles RMB'000	Furniture & fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2011	1,935,168	3,410,631	67,134	179,196	160,333	5,752,462
Exchange realignment	–	(154)	(72)	(120)	–	(346)
Additions	15,604	49,960	22,785	11,408	105,489	205,246
Transfer from construction in progress	78,517	62,291	–	5,032	(145,840)	–
Addition on acquisition of a subsidiary	806	45	80	–	–	931
Disposals	(25,166)	(40,079)	(14,583)	(9,403)	(5,044)	(94,275)
At 31 December 2011	2,004,929	3,482,694	75,344	186,113	114,938	5,864,018
At 1 January 2012	2,004,929	3,482,694	75,344	186,113	114,938	5,864,018
Exchange realignment	1	–	(3)	(1)	–	(3)
Additions	23,295	10,718	16,517	13,658	330,431	394,619
Transfer from construction in progress	73,229	87,839	131	18,477	(179,676)	–
Addition on acquisition of a subsidiary	202,527	347,049	8,942	95,298	14,090	667,906
Deemed disposal of interest in a subsidiary	(567,940)	(1,784,347)	(10,139)	(35,649)	(68,328)	(2,466,403)
Disposals	(9,794)	(19,568)	(5,934)	(129)	(279)	(35,704)
At 31 December 2012	**1,726,247**	**2,124,385**	**84,858**	**277,767**	**211,176**	**4,424,433**
Depreciation and impairment						
At 1 January 2011	(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)
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)
At 31 December 2011	(276,333)	(895,310)	(30,506)	(125,026)	–	(1,327,175)
At 1 January 2012	(276,333)	(895,310)	(30,506)	(125,026)	–	(1,327,175)
Exchange realignment	(1)	–	3	1	–	3
Charge for the year	(95,432)	(282,314)	(10,334)	(22,036)	–	(410,116)
Addition on acquisition of a subsidiary	(24,651)	(87,540)	(5,228)	(4,321)	–	(121,740)
Deemed disposal of interest in a subsidiary	72,373	482,374	5,506	17,395	–	577,648
Disposal	3,250	10,941	5,372	121	–	19,684
At 31 December 2012	**(320,794)**	**(771,849)**	**(35,187)**	**(133,866)**	**–**	**(1,261,696)**
Net book value						
At 31 December 2012	**1,405,453**	**1,352,536**	**49,671**	**143,901**	**211,176**	**3,162,737**
At 31 December 2011	1,728,596	2,587,384	44,838	61,087	114,938	4,536,843

16 PROPERTY, PLANT AND EQUIPMENT (continued)

Certain property, plant and equipment which were obsolete, damaged or that could not generate future economic benefits were provided against for impairment for the year ended 31 December 2012 was nil (2011: RMB81,323,000).

Certain property, plant and equipment were pledged to secure banking facilities granted to the Group as disclosed in note 33(c).

17 INVESTMENT PROPERTIES

	At 31 December 2012 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 2012 and 2011 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 PREPAID LEASE PAYMENTS

At the end of reporting period, the Group's prepaid lease payments comprise:

	2012 RMB'000	2011 RMB'000
Cost		
At 1 January	727,098	632,277
Additions	2,361	94,821
Addition on acquisition of a subsidiary	90,679	–
Deemed disposal of interest in a subsidiary	(176,788)	–
At 31 December	643,350	727,098
Accumulated amortization		
At 1 January	(107,607)	(84,620)
Charge for the year	(22,390)	(22,987)
Addition on acquisition of a subsidiary	(1,643)	–
Deemed disposal of interest in a subsidiary	20,496	–
At 31 December	(111,144)	(107,607)
Net book value		
At 31 December	532,206	619,491
Analysis for reporting purposes as		
Current assets	11,977	13,380
Non-current assets	520,229	606,111
	532,206	619,491

Certain prepaid lease payments were pledged to secure banking facilities and borrowings granted to the Group as disclosed in note 33(c).

19 MINING RIGHTS

	Mining rights *RMB'000*
Cost	
At 1 January 2012	**–**
Addition on acquisition of a subsidiary	**760,621**
At 31 December 2012	**760,621**
Accumulated amortization	
At 1 January 2012	**–**
Addition on acquisition of a subsidiary	**(3,362)**
Charge for the year	**(22,801)**
At 31 December 2012	**(26,163)**
Net book value	
At 31 December 2012	**734,458**

20 GOODWILL

	2012 *RMB'000*	2011 *RMB'000*
Cost		
At 1 January	**554,374**	568,705
Addition on acquisition of a subsidiary	**531,074**	–
Deemed disposal of interest in a subsidiary	**(265,357)**	–
Exchange adjustments	**71**	(14,331)
At 31 December	**820,162**	554,374
Impairment losses		
At 1 January	**(265,357)**	–
Deemed disposal of interest in a subsidiary	**265,357**	–
Impairment loss recognized in the year	**–**	(265,357)
At 31 December	**–**	(265,357)
Carrying amount		
At 31 December	**820,162**	289,017

20 GOODWILL (continued)

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:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Marketing	**257,288**	257,225
Production		
– Sinochem Yunlong	**531,074**	–
– Others	**31,800**	31,792
	820,162	289,017

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rate and expected changes to revenue and direct costs used in the cash flow 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 using pre-tax rates that reflect current market assessment of the time value of money and the risks specific relating to the CGUs. Cash flow forecasts of each CGU are derived from financial budgets of 2012 approved by the directors of the Company. The growth rates for the first 3 years from 2013 are based on the relevant CGUs past performance and management's expectation for the market development and for the following years are based on steady growth rates.

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

	Marketing	**Production**
Discount rate	8.33%	11.19%
Average growth rate for the first three years from 2013	10%	21%
Steady growth rate for the following years	6.92%	0%

The value in use calculated is higher than the carrying amount for each CGU, accordingly, no impairment of goodwill was recognized for the year ended 31 December 2012.

21 OTHER LONG-TERM ASSETS

	2012 RMB'000	2011 RMB'000
Cost		
At 1 January	**81,544**	75,012
Additions	**7,753**	6,532
Additions on acquisition of a subsidiary	**475**	–
Deemed disposal of interest in a subsidiary	**(65,808)**	–
At 31 December	**23,964**	81,544
Accumulated amortization		
At 1 January	**(48,944)**	(34,569)
Charge for the year	**(15,301)**	(14,375)
Additions on acquisition of a subsidiary	**(103)**	–
Deemed disposal of interest in a subsidiary	**51,683**	–
At 31 December	**(12,665)**	(48,944)
Net book value		
At 31 December	**11,299**	32,600

Other long-term assets 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.

22 INTERESTS IN ASSOCIATES

	2012	2011
	RMB'000	*RMB'000*
At the end of reporting period, cost of investment in associates:		
– Listed in the PRC	**6,799,615**	6,799,615
– Unlisted	**409,510**	199,192
Share of profits, net of dividends	**968,436**	755,628
	8,177,561	7,754,435
Fair value of listed investments	**3,812,578**	4,545,863

The fair value of the listed investment has been determined by multiplying the closing share price on 31 December 2012 by the total number of shares held by the Group. As the fair value is lower than the balance sheet value, an impairment review had been performed by the Company. The directors of the Company are of the opinion that no impairment allowance is necessary in respect of the listed investment as at 31 December 2012.

22 INTERESTS IN ASSOCIATES (continued)

As at 31 December 2012 and 2011, the Group had interests in the following associates:

Name of entities	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 2012	2011	Proportion of voting power held 2012	2011	Principal activity
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%**	8.94%	**23.95%**	23.95%	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
Yangmei Pingyuan Chemical Co., Ltd. (formerly known as "Sinochem Pingyuan Chemical Co., Ltd. 中化平原化工有限公司") *(note 7)* 陽煤平原化工有限公司	Incorporated	The PRC	The PRC	Ordinary	**36.75%**	75%	**36.75%**	75%	Production and sales of fertilizers

Summary financial information on associates:

	As at 31 December **2012** *RMB'000*	2011 *RMB'000*
Total assets	**50,839,136**	35,375,648
Total liabilities	**(27,262,800)**	(14,728,874)
Net assets	**23,576,336**	20,646,774
Group's share of net assets of associates	**2,362,028**	1,951,115
Turnover	**11,390,580**	8,625,908
Profit for the year	**2,722,204**	1,794,142
Group's share of results of associates for the year	**235,920**	201,261

23 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cost of unlisted investments in jointly controlled entities	**437,793**	587,793
Share of profits, net of dividends	**148,636**	131,084
	586,429	718,877

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Financial position		
Non-current assets	**926,921**	1,394,352
Current assets	**875,288**	1,036,752
Non-current liabilities	**(316,086)**	(357,991)
Current liabilities	**(899,694)**	(1,354,236)
Net assets	**586,429**	718,877
Result for the year		
Turnover	**2,241,023**	1,607,676
Expense	**(2,172,586)**	(1,532,710)

Details of the principle jointly controlled entities are set out in note 44.

24 AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Available-for-sale investments comprise:		
– Listed equity securities	**80,709**	77,405
– Unlisted equity securities	**292,632**	97,252
Less: impairment losses	**(1,290)**	(1,290)
	372,051	173,367

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 2012, Guiyang Sinochem Kailin Fertilizer co., Ltd. ("Sinochem Kailin"), a company established in PRC, increased its paid-in capital to RMB750 million. The Group waived its right of the priority for purchasing and as a result, the Group's interest in Sinochem Kailin decreased from 20% to 13.41%. Therefore, the Group is no longer in a position to exercise either joint control or significant influence over Sinochem Kailin. The investment in Sinochem Kailin was measured at fair value at the time when the Group lost joint control over Sinochem Kailin, with the resulting gain recognized in profit or loss. The fair value of RMB195,383,000 of the investment in Sinochem Kailin at the date when the Group ceased to have joint control over Sinochem Kailin is regarded as the fair value on initial recognition as an available-for-sale investment in accordance with HKAS 39.

25 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Fertilizer merchandise and finished goods	**4,574,012**	6,469,871
Raw materials	**668,699**	921,859
Work in progress	**78,534**	43,930
Consumables	**54,653**	28,454
	5,375,898	7,464,114

25 INVENTORIES (continued)

(b) The analysis of the amount of inventories recognized as an expense and include in profit or loss is as follow:

	2012 RMB'000	2011 RMB'000
Carrying amount of inventories sold	**38,699,197**	34,475,918
Write-down of inventories *(note)*	**86,461**	55,257
	38,785,658	34,531,175

note: During the year ended 31 December 2012, write-down of inventories amounting to approximately RMB86,461,000 (2011: RMB55,257,000) 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.

26 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2012 RMB'000	2011 RMB'000
Trade receivables	**492,982**	344,493
Less: allowance for doubtful debts *(note (b))*	**–**	(61)
	492,982	344,432
Bill receivables	**665,677**	1,364,329
Total trade and bill receivables	**1,158,659**	1,708,761

(a) Aging analysis of trade and bills receivables

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 and bills receivables net of allowance for doubtful debts presented based on the invoice date is as follows:

	2012 RMB'000	2011 RMB'000
Within 3 months	**989,123**	1,267,941
More than 3 months but within 6 months	**161,463**	438,766
More than 6 months but within 12 months	**4,121**	742
Over 12 months	**3,952**	1,312
	1,158,659	1,708,761

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.

26 TRADE AND BILLS RECEIVABLES (continued)

(b) Impairment of trade and bills receivables

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

	2012	2011
	RMB'000	*RMB'000*
Balance at 1 January	**61**	16,120
Reversal of allowance	**–**	(16,008)
Deemed disposal of interest in a subsidiary	**(61)**	–
Write-off of uncollectible receivables	**–**	(51)
Balance at 31 December	**–**	61

(c) Trade debtors and bills receivables that are not impaired

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
More than 3 months but within 6 months	**3,556**	2,980
More than 6 months but within 12 months	**4,121**	742
Over 12 months	**3,952**	1,312
	11,629	5,034

Included in the Group's trade receivables are debtors with aggregate carrying amount of RMB11,629,000 (2011: RMB5,034,000) 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.

27 OTHER RECEIVABLES AND ADVANCE PAYMENTS

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Other receivables	**171,766**	199,423
Less: allowance for doubtful debts *(note)*	**(12,578)**	(19,959)
	159,188	179,464
Advance payments	**2,115,798**	2,151,215
Other receivables and advance payments	**2,274,986**	2,330,679

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

	2012	2011
	RMB'000	*RMB'000*
Balance at 1 January	**19,959**	40,622
Write-down/(reversal) of allowance	**600**	(4,016)
Additions on acquisition of a subsidiary	**2,680**	–
Deemed disposal of interest in a subsidiary	**(10,661)**	–
Write-off of uncollectible receivables	**–**	(16,647)
Balance at 31 December	**12,578**	19,959

28 LOANS TO AN ASSOCIATE

Loans to an associate represent the entrusted loans lent to Yangmei Pingyuan which are unsecured, bear annual interest rates from 5.60% to 6.10% and is repayable within one year.

29 OTHER DEPOSITS

Other deposits represent principal-protected financial products issued by financial institutions in the PRC, which carried fixed interest rates from 2.20% to 4.75% (2011: 1.50% to 7.00%) per annum. Included in other deposits as at 31 December 2012, balances of approximately RMB700,100,000 (2011: RMB650,000,000) 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. All of the other deposits are accounted for as loans and receivables at amortized cost.

30 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 0.40% (2011: 0.50%) per annum at 31 December 2012.

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 0.1% to 0.5% (2011: 0.95% to 3.10%) per annum.

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Cash in hand	**181**	319
Cash at bank	**334,501**	302,026
	334,682	302,345

As at 31 December 2012, included in pledged bank deposits and bank balances and cash mainly are the following amounts denominated in currencies other than the functional currency of the relevant entity to which they relate.

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
United States dollars ("US$")	**283**	2,545

31 TRADE AND BILLS PAYABLES

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Trade payables	**3,322,420**	5,423,328
Bills payables	**242,455**	108,301
Trade and bills payables	**3,564,875**	5,531,629

As at 31 December 2012 and 2011, all trade and bills payables of the Group are repayable on demand except for bills payable which are repayable within 6 months. All trade and bills payable are expected to be settled within one year.

32 OTHER PAYABLES AND RECEIPT IN ADVANCE

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Payroll payable	**167,805**	204,835
Consideration payable for acquisition of Sinochem Yunlong *(note 46(a))*	**650,000**	–
Others	**234,501**	168,708
Other payables	**1,052,306**	373,543
Receipt in advance	**2,732,078**	3,484,605
Other payables and receipt in advance	**3,784,384**	3,858,148

33 INTEREST-BEARING BORROWINGS

(a) The analysis of the carrying amount of interest-bearing borrowings is as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Bank loans, secured	**69,998**	–
Bank loans, unsecured	**1,909,026**	2,939,931
Bonds *(note)*		
Principal amount	**2,500,000**	2,500,000
Less: unamortized transaction costs	**(16,215)**	(18,565)
	4,462,809	5,421,366

Note: On 25 November 2009, a PRC subsidiary of the Group 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.

All of the interest-bearing borrowings are carried at amortized cost.

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Carrying amount repayable:		
Within one year	**1,577,724**	2,349,358
More than 1 year, but within 2 years	**175,000**	239,000
More than 2 years, but within 5 years	**226,300**	344,300
More than 5 years	**2,483,785**	2,488,708
	4,462,809	5,421,366
Less: Amounts due within 1 year shown under current liabilities	**(1,577,724)**	(2,349,358)
Amounts shown under non-current liabilities	**2,885,085**	3,072,008

33 INTEREST-BEARING BORROWINGS (continued)

(b) The analysis of interest-bearing borrowings by interest rates as follows:

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Fixed-rate borrowings:		
Within 1 year	**874,247**	627,635
More than 1 year, but within 2 years	**–**	159,000
More than 2 years, but within 5 years	**–**	–
More than 5 years	**2,483,785**	2,488,708
	3,358,032	3,275,343

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Variable-rate borrowings:		
Within 1 year	**703,477**	1,721,723
More than 1 year, but within 2 years	**175,000**	80,000
More than 2 years, but within 5 years	**226,300**	344,300
	1,104,777	2,146,023

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:

	2012	2011
Fixed-rate borrowings	**1.20% to 6.89%**	2.55% to 6.41%
Variable-rate borrowings	**1.01% to 6.15%**	1.25% to 7.05%

33 INTEREST-BEARING BORROWINGS (continued)

(c) Unutilized banking facilities

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

	2012	2011
	RMB'000	*RMB'000*
expiring within 1 year	**15,255,395**	26,144,168
expiring beyond 1 year	**16,555,460**	6,835,000
	31,810,855	32,979,168

At 31 December 2012, certain land use rights, property, plant and equipment with carrying values of approximately RMB37,099,000 (2011: RMB19,020,000) were pledged to secure banking facilities and borrowings granted to the Group.

34 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	
	2012	2011
	RMB'000	*RMB'000*
Deferred tax assets	**674,865**	756,462
Deferred tax liabilities	**(271,945)**	(59,040)
	402,920	697,422

34 DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (continued)

(a) Deferred tax assets and liabilities recognized:

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

	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 2011	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 expense for the year	(1,215)	–	–	–	–	–	–	(1,215)
At 31 December 2011	–	(59,040)	12,816	47,162	683,674	234	12,576	697,422
At 1 January 2012	**-**	**(59,040)**	**12,816**	**47,162**	**683,674**	**234**	**12,576**	**697,422**
Credit/(charge) to profit or loss for the year	**-**	**6,015**	**(6,428)**	**7,363**	**(63,502)**	**(16)**	**(4,937)**	**(61,505)**
Additions on acquisition of a subsidiary	**-**	**(218,540)**	**-**	**1,546**	**10,352**	**(207)**	**4,974**	**(201,875)**
Deemed disposal of interest in a subsidiary	**-**	**-**	**-**	**(28,797)**	**-**	**-**	**(2,325)**	**(31,122)**
At 31 December 2012	**-**	**(271,565)**	**6,388**	**27,274**	**630,524**	**11**	**10,288**	**402,920**

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 RMB2,522,097,000 (2011: RMB2,734,688,000) that can be carried forward against taxable income in the coming five years. No tax loss expired in current year (2011: RMB833,000).

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

34 DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (continued)

(b) Deferred tax assets not recognized

No deferred tax assets were recognized on the remaining tax losses of approximately RMB693,964,000 (2011: RMB943,459,000) 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 RMB120,735,000 that will expire before 31 December 2017 (2011: RMB411,839,000 that will expire before 31 December 2016). Other losses may be carried forward indefinitely.

(c) Deferred tax liabilities not recognized

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 RMB195,870,000 (2011: RMB53,980,000) at 31 December 2012.

35 ISSUED EQUITY

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

	2012	2011
	RMB'000	*RMB'000*
At 1 January	**8,264,318**	8,260,977
Issue of new shares of par value of HK$0.10 each		
Conversion of convertible loan notes	**–**	368
Exercise of share options	**3,066**	2,973
At 31 December	**8,267,384**	8,264,318

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 2011 and 2012, 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.

35 ISSUED EQUITY (continued)

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

	2012			2011		
	Number of shares '000	Nominal value HK$'000	Equivalent to RMB'000	Number of shares '000	Nominal value HK$'000	Equivalent to RMB'000
Authorized:						
Ordinary shares of HK$0.10 each	80,000,000	8,000,000		80,000,000	8,000,000	
Ordinary shares of the Company, issued and fully paid:						
At 1 January	7,022,686	702,269	691,606	7,020,907	702,091	691,458
Conversion of convertible loan notes	–	–	–	96	10	8
Exercise of options	1,770	177	144	1,683	168	140
At 31 December	7,024,456	702,446	691,750	7,022,686	702,269	691,606

	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 2012 and 2011.

(Expressed in RMB unless otherwise indicated)

36 SHARE-BASED PAYMENT TRANSACTIONS

The Company has granted certain share options on 23 January 2006 and 28 August 2007, respectively under share option schemes, whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. Each options gives the holder the right to subscribe for one ordinary share in the Company and its settled gross in shares.

(a) The details of the share options outstanding granted under the share option schemes as at 31 December 2011 are as follows:

	Numbers of options	Exercisable period	Exercise price
Options granted on 23 January 2006: *(note a)*			
– Mr. LIU De Shu	1,900	23 January 2008 to 22 January 2012	HK$1.672
– Mr. Harry YANG	600	23 January 2008 to 22 January 2012	HK$1.672
– Employees	2,103,000	23 January 2008 to 22 January 2012	HK$1.672
	2,105,500		
Options granted on 28 August 2007: *(note b)*			
– Mr. LIU De Shu	210,000	28 August 2009 to 27 August 2013	HK$4.990
– Mr. Harry YANG	210,000	28 August 2009 to 27 August 2013	HK$4.990
– Employees	1,772,728	28 August 2009 to 27 August 2013	HK$4.990
– Other eligible participants	338,000	28 August 2009 to 27 August 2013	HK$4.990
	2,530,728		
	4,636,228		

Note:

a. Among the options granted on 23 January 2006, there are 1,769,600 shares had been exercised during January 2012. The rest 335,900 shares were expired and lapsed during this year. As at 31 December 2012, no options are outstanding.

b. Pursuant to the shareholder's resolution passed by the annual general meeting ("AGM") of the Company on 14 June 2012, all outstanding share options at the date of the AGM have been cancelled. Reasons for the cancellation and effect on the Company were set out in the circular of the Company dated 15 May 2012. After the cancellation, no options are outstanding as at 31 December 2012.

36 SHARE-BASED PAYMENT TRANSACTIONS (continued)

(b) The number and weighted average exercise prices of share options are as follows:

	2012 Weighted average exercise price	**2012** Number of options	2011 Weighted average exercise price	2011 Number of options
	HKD	***'000***	*HKD*	*'000*
Outstanding at the beginning of the year	**3.483**	**4,636**	3.165	6,891
Exercised during the year	**1.672**	**(1,770)**	1.672	(1,683)
Lapsed during the year	**2.064**	**(381)**	4.978	(572)
Cancelled during the year	**4.990**	**(2,485)**	–	–
Outstanding at the end of year	**–**	**–**	3.483	4,636
Exercisable at the end of the year	**–**	**–**	3.483	4,636

The weighted average share price at the dates of exercise for share options exercised during the year was HK$2.20 (2011: HK$3.17).

No option is outstanding as at 31 December 2012.

37 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 years.

The capital structure of the Group consists of net debt including 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.

38 FINANCIAL INSTRUMENT

(a) 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 and advance payments, bank balances and cash, trade and bills payables, other payables 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.

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 major 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**	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**47,752**	27,587	**283**	2,545

Sensitivity analysis

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

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.

38 FINANCIAL INSTRUMENT (continued)

(a) 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 33 for details of these borrowings) and other deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings (see note 33 for details of these borrowings). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group 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 borrowings at the end of the reporting period. For variable-rate 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 (2011: 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 (2011: 100 basis points) higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2012 would decrease/increase by approximately RMB8,286,000 (2011: approximately RMB15,953,000). This is mainly attributable to the Group's exposure to change in interest rates on its variable-rate borrowings.

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

38 FINANCIAL INSTRUMENT (continued)

(a) 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% (2011: 10%) higher/lower:

- investment valuation reserve/impairment losses would increase by approximately RMB8,071,000 (2011: RMB7,741,000) as a result of the increase/decrease in fair value of available-for-sale investments.

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 2012 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, bills receivables and other deposits is limited because the counterparties are banks with high credit rating.

Other than concentration of credit risk on liquid funds, bills receivables 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 2012, the Group has available unutilized bank loan facilities of approximately RMB31,810,855,000 (2011: approximately RMB32,979,168,000). Details are set out in note 33.

38 FINANCIAL INSTRUMENT (continued)

(a) Financial risk management objectives and policies (continued)

Liquidity risk (continued)

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.

	2012 Contractual undiscounted cash outflow				
	Within 1 year or on demand	**1-5 years**	**More than 5 years**	**Total**	**Balance sheet carrying amount**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***	***RMB'000***
Trade and bills payables	**3,564,875**	**–**	**–**	**3,564,875**	**3,564,875**
Other payables	**1,052,306**	**–**	**–**	**1,052,306**	**1,052,306**
Borrowings:					
– fixed rate	**1,016,277**	**500,342**	**2,737,329**	**4,253,948**	**3,358,032**
– variable rate	**735,169**	**425,105**	**–**	**1,160,274**	**1,104,777**
	6,368,627	**925,447**	**2,737,329**	**10,031,403**	**9,079,990**

	2011 Contractual undiscounted cash outflow				
	Within 1 year or on demand	1-5 years	More than 5 years	Total	Balance sheet carrying amount
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade and bills payables	5,531,629	–	–	5,531,629	5,531,629
Other payables	373,543	–	–	373,543	373,543
Borrowings:					
– fixed rate	775,186	658,103	2,842,063	4,275,352	3,275,343
– variable rate	1,759,500	466,500	–	2,226,000	2,146,023
	8,439,858	1,124,603	2,842,063	12,406,524	11,326,538

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.

38 FINANCIAL INSTRUMENT (continued)

(b) Fair value

(i) Financial instruments carried at fair value

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 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	31 December 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Listed available-for-sale investments	**80,709**	**–**	**–**	**80,709**

	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

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

	2012	2011
	RMB'000	*RMB'000*
Derivatives		
At 1 January	**–**	48,058
Changes in fair value recognized in profit or loss	**–**	(46,923)
Exchange differences	**–**	(1,135)
At 31 December	**–**	–

38 FINANCIAL INSTRUMENT (continued)

(b) Fair value (continued)

(ii) Fair value of financial instruments carried at other than fair value

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:

	2012		2011	
	Carrying amount	**Fair value**	Carrying amount	Fair value
	RMB'000	***RMB'000***	*RMB'000*	*RMB'000*
Financial liabilities	**2,483,785**	**2,504,110**	2,481,435	2,450,000

(c) Estimation of fair values

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments.

(i) Available-for-sale securities

The fair value of available-for-sale securities is determined by reference to their quoted bid price at the end of the reporting period. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

(ii) Trade and bills receivable and other receivables and advance payments

The fair value of trade and bills receivable and other receivables and advance payments is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

(iii) Non-derivative financial liabilities

The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(iv) Interest-bearing borrowings and loans

The fair value of interest-bearing borrowings and loans is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

(v) Interest rates used for determining fair value

The Group uses the market rate of interest-bearing borrowings as of 31 December 2012. The interest rates used are disclosed in note 33.

39 CONTINGENT LIABILITIES

At 31 December 2012 and 2011, the Group had no material contingent liabilities.

40 CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Capital expenditure in respect of acquisition project, property, plant and equipment:		
– Contracted but not provided for	**150,996**	19,085
– Authorized but not contracted for	**1,801,626**	2,095,810
	1,952,622	2,114,895

41 OPERATING LEASE

The Group as lessor

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

	2012 RMB'000	2011 RMB'000
Within 1 year	**811**	1,013
More than 1 year, but within 5 years	**50**	246
	861	1,259

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:

	2012 RMB'000	2011 RMB'000
Within 1 year	**49,118**	77,688
More than 1 year, but within 5 years	**37,561**	17,920
Over 5 years	**1,578**	4,680
	88,257	100,288

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.

42 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Group during the year ended 31 December 2012 and 2011 were as follows:

Holding company

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

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)
Jinmao Investment (Changsha) Co. Ltd. ("Jinmao Investment")
(金茂投資（長沙）有限公司)

A subsidiary of a shareholder with significant influence over the Company

PCS Sales (USA) Inc. ("PCS Sales")

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)
Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan")
(陽煤平原化工有限公司) (increased from 1 November 2012)

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)
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)

Available-for-sale investment entity

Guiyang Sinochem Kailin Fertilizer Co., Ltd. ("Sinochem Kailin", a joint controlled entity of the Group for the year ended 31 December 2011)
(貴陽中化開磷化肥有限公司)

42 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:

	2012	2011
	RMB'000	*RMB'000*
Sales of fertilizers to		
Sinochem Group *(note)*	78,809	140,195
Gansu Wengfu	84,796	213,065
Yara Sinochem	–	2,111
Yunnan Three-Circle	265,900	82,373
	429,505	437,744
Purchases of fertilizers from		
Sinochem Group *(note)*	458,138	213,046
Salt Lake Industry	427,013	500,153
Yunnan Three-Circle	912,875	720,310
Gansu Wengfu	384,407	369,442
Guizhou Xinxin	51,639	98,453
Sinochem Mosaic	30,501	25,211
PCS Sales *(note)*	9,385	7,463
Yangmei Pingyuan	112,064	–
Sinochem Kailin	107,643	–
	2,493,665	1,934,078
Import service fee paid to		
Sinochem Group *(note)*	2,362	3,787
Sinochem (United Kingdom) Limited	12,586	12,924
	14,948	16,711
Office rental fee paid to		
Chemsunny Ltd.	18,449	17,715

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

42 RELATED PARTY TRANSACTIONS (continued)

(b) As at the end of the reporting period, the Group had the following material balances with its related parties:

	2012 *RMB'000*	2011 *RMB'000*
Other receivables		
Chemsunny Ltd.	**4,273**	4,273
Sinochem Kailin	**11,245**	11,245
Sinochem HK	**1,442**	–
Yangmei Pingyuan	**1,014**	–
Sinochem Group	**45**	1,609
	18,019	17,127
Advance payments		
Gansu Wengfu	**53,455**	26,604
Sinochem Mosaic	**–**	7,587
Salt Lake Industry	**144,285**	3,580
Guizhou Xinxin	**8,795**	44,851
Yangmei Pingyuan	**83,939**	–
Jinmao Investment	**3,926**	–
	294,400	82,622
Loans to an associate		
Yangmei Pingyuan	**1,297,284**	–
Trade payables		
Sinochem Group	**2,292,707**	2,404,307
Yunnan Three-Circle	**177,588**	52,372
PCS Sales	**–**	421
Guizhou Xinxin	**37,607**	–
	2,507,902	2,457,100
Other payables		
Sinochem Group	**–**	2,475
Yangmei Pingyuan	**47,675**	–
	47,675	2,475

42 RELATED PARTY TRANSACTIONS (continued)

(b) As at the end of the reporting period, the Group had the following material balances with its related parties: (continued)

	2012 RMB'000	2011 RMB'000
Receipt in advance		
Sinochem Mosaic	**36,443**	–
Borrowings		
Sinochem HK	**–**	1,234,976

(c) Compensation of key management personnel

Key management personnel are Group's directors and senior executives. Remuneration paid to the directors was disclosed in note 12, and was made by the Remuneration Committee according to individual performance and relevant comparable market statistics. Remuneration paid to senior executives is as follows:

	2012 RMB'000	2011 RMB'000
Salaries and other benefits	**4,235**	4,061
Performance related incentive payments	**5,859**	4,798
Retirement benefits scheme contribution	**194**	184
	10,288	9,043

The emoluments of senior executives were within the following bands:

	2012 Number of individuals	2011 Number of individuals
Nil to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**–**	1
HK$1,500,001 to HK$2,000,000	**3**	3
HK$2,000,001 to HK$2,500,000	**1**	1
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**1**	–
	7	8

42 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.

	2012	2011
	RMB'000	*RMB'000*
Trade and bills receivables	**144,283**	432,398
Other receivables and advance payments	**452,836**	351,203
Trade and bills payables	**337,710**	389,586
Other payables and receipt in advance	**163,502**	379,607

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

	2012	2011
	RMB'000	*RMB'000*
Sales of fertilizers	**3,802,063**	3,918,669
Purchases of fertilizers	**10,071,879**	7,946,972

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.

(Expressed in RMB unless otherwise indicated)

43 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2012 and 2011:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group 2012	2011	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 Yunlong Co., Ltd. *(note c) (note f)* (中化雲龍有限公司)	The PRC	RMB500,000,000	**100%**	N/A	Sales and manufacturing of feeds stuff
Sinochem Yantai Crop Nutrition Co., Ltd. *(note b) (note e)* (煙台中化作物營養有限公司)	The PRC	US$1,493,000	**100%**	100%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Co., Ltd. *(note c)* (滿洲里凱明化肥有限公司)	The PRC	RMB5,000,000	**100%**	100%	Fertilizer trading

(Expressed in RMB unless otherwise indicated)

43 PRINCIPAL SUBSIDIARIES (continued)

Particulars of the principal subsidiaries of the Group as at 31 December 2012 and 2011: (continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2012	2011	
Indirectly held: (Continued)					
Yangmei Pingyuan Chemical Co., Ltd. *(note c) (note g)* (陽煤平原化工有限公司)	The PRC	RMB300,000,000	**N/A**	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%	Fertilizer 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%**	100%	Sales of fertilizers
Pingyuan County Xinglong Textile Co., Ltd. *(note c)* (平原縣興龍紡織有限公司)	The PRC	RMB15,000,000	**75%**	75%	Sales and manufacturing of textiles

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.

Note a: Foreign invested enterprise

Note b: Sino-foreign enterprise

Note c: Domestic company

Note d: Established in 2011

Note e: Acquisition of non-controlling interests in 2011

Note f: Acquisition in 2012 (refer to note 46(a))

Note g: Disposal of part of interests in 2012 (refer to note 7 and 46(b))

(Expressed in RMB unless otherwise indicated)

44 PRINCIPAL JOINTLY CONTROLLED ENTITIES

Particulars of the principal jointly controlled entities of the Group as at 31 December 2012 and 2011:

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
			2012	2011	
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%**	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%**	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	The PRC	RMB1,400,000,000	**40%**	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	RMB181,000,000	**30%**	30%	Sales and manufacturing of fertilizers

Note:

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.

45 RETIREMENT BENEFITS SCHEME CONTRIBUTION

According to the relevant laws and regulations in the PRC Mainland, Hong Kong and Macao SAR, the Group'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.

46 ACQUISITION/DISPOSAL OF SUBSIDIARIES

(a) Sinochem Yunlong Co., Ltd.

The Group entered into a share purchase agreement with Sichuan Lomon Corporation and Tibet Longsheng Investment Management Co., Ltd. on 8 January 2012 in relation to the acquisition of the entire 100% equity interests of Xundian Lomon Phosphorus Chemical Co., Ltd. ("Xundian Lomon") (the "Acquisition"). The Acquisition was completed on 19 March 2012. Xundian Lomon was renamed as Sinochem Yunlong.

The Acquisition will be of strategic significance to the Group as it will enable the Group to own the phosphate resource and to further explore such resources in the south-western China.

For the period from 19 March 2012 to 31 December 2012, Sinochem Yunlong contributed revenue of RMB542,238,000 and profit of RMB69,960,000 to the Group's results. There are seasonal market fluctuations for certain products of Sinochem Yunlong, the dull season is usually between October to March of the coming year. If the Acquisition had occurred on 1 January 2012, management estimates that the consolidated revenue would have been RMB41,213,870,000 and the consolidated profit for the year would have been RMB895,499,000. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same as if the Acquisition had occurred on 1 January 2012.

The consideration for the Acquisition is RMB1,380 million.

46 ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(a) Sinochem Yunlong Co., Ltd. (continued)

Identifiable assets acquired and liabilities assumed as at 19 March 2012:

	Carrying value *RMB'000*	Fair value adjustments *RMB'000*	Fair value *RMB'000*
Property, plant and equipment	461,211	84,955	546,166
Prepaid lease payments	16,640	72,396	89,036
Mining rights	25,625	731,634	757,259
Advance payments for acquisition of property, plant and equipment	3,588	–	3,588
Deferred tax assets	17,326	–	17,326
Other long-term assets	372	–	372
Inventories	180,063	854	180,917
Bank balances and cash	37,038	–	37,038
Other current assets	25,873	–	25,873
Current liabilities	(582,448)	–	(582,448)
Deferred tax liabilities	(661)	(218,540)	(219,201)
Other non-current liabilities	(7,000)	–	(7,000)
Total identifiable net assets	177,627	671,299	848,926
Goodwill recognized			531,074
Total consideration			1,380,000
Satisfied by:			
Consideration payable			650,000
Cash paid			730,000
Cash flow in respect of the acquisition:			
Cash paid by the Group			730,000
Less: Cash acquired			(37,038)
Net cash outflow in respect of the acquisition			692,962

The fair value of net identifiable assets of Sinochem Yunlong is determined based on the valuation carried out by a qualified independent valuer, China United Assets Appraisal Group Co., Ltd.

The goodwill is attributable mainly to the anticipated synergy between the phosphate resources and the processing production line to be realised by the Group subsequent to the Acquisition. None of the goodwill recognised is expected to be deductible for tax purpose.

46 ACQUISITION/DISPOSAL OF SUBSIDIARIES (continued)

(b) Yangmei Pingyuan Chemical Co., Ltd.

Upon the completion of the Injection as stated in note 7, Yangmei Chemical holds 51% equity interests in Yangmei Pingyuan, while the Group's equity interests in Yangmei Pingyuan decreased from 75% to 36.75%. As a result, the Group accounted for the reduction of equity interests in Yangmei Pingyuan as a deemed disposal of investment in a subsidiary and recognized a gain of approximately RMB92,174,000 in the year.

The carrying amounts of assets and liabilities in the subsidiary at the date when controls were lost are as follows:

	Carrying value *RMB'000*
Property, plant and equipment	1,888,755
Prepaid lease payments	156,292
Other long-term assets	14,125
Deferred tax assets	31,122
Inventories	185,585
Bank balances and cash	277,904
Other current assets	167,728
Interest-bearing borrowings	(1,287,000)
Other current liabilities	(992,319)
Non-current liabilities	(22,670)
Total net assets	419,522
Total consideration	–
Fair value of the retained interests as an associate	210,318
Carrying amount of net assets in the subsidiary disposed of	(118,144)
Net gain on deemed disposal of the subsidiary recognized during the year	92,174

47 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the directors proposed a final dividend. Further details are disclosed in note 14.

Pursuant to the Capital Contribution Agreement (the "Agreement") dated 24 January 2013, the Group, Sinochem Hebei Company Limited ("Sinochem Hebei"), a related party of the Group, and Shijiazhuang Bolong Agricultural Products Trading Company Limited ("Shijiazhuang Bolong") agreed to establish a joint venture, namely Sinochem Shijiazhuang Agricultural Materials and Logistics Company Limited ("Sinochem Shijiazhuang Logistics"), with a registered capital of RMB60 million. The details of the Agreement were included in the announcement of the Company dated 24 January 2013. According to the Agreement, upon completion of the transaction, the Group, Sinochem Hebei and Shijiazhuang Bolong will respectively own 51%, 19% and 30% of the registered capital of Sinochem Shijiazhuang Logistics, which will become a subsidiary of the Group. As at the date of this report, Sinochem Shijiazhuang Logistics has received the capital of RMB40,000,000.

48 COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

49 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:

	2012	2011
	RMB'000	*RMB'000*
Investments in subsidiaries	**6,189,729**	6,188,202
Amount due from subsidiaries	**5,862,315**	5,898,596
Other non-current assets	**80,745**	78,998
Bank balances and cash	**4,747**	5,895
Other current assets	**838,049**	643,492
Total assets	**12,975,585**	12,815,183
Current liabilities	**12,680**	13,709
Total equity	**12,962,905**	12,801,474

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**41,190,137**	36,684,963	29,271,077	27,010,709	45,392,885
Profit/(loss) before tax	**1,022,365**	836,501	482,862	(2,149,096)	2,084,237
Income tax(expense)/credit	**(98,711)**	(150,717)	(481)	683,127	(176,430)
Profit/(loss) for the year	**923,654**	685,784	482,381	(1,465,969)	1,907,807
Profit/(loss) attributable to					
Owners of the Group	**878,369**	677,968	535,711	(1,443,813)	1,912,555
Non-controlling interests	**45,285**	7,816	(53,330)	(22,156)	(4,748)
	923,654	685,784	482,381	(1,465,969)	1,907,807

	At 31 December				
	2012	2011	2010	2009	2008
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**26,409,804**	28,398,490	25,444,563	25,291,151	30,125,080
Total liabilities	**(12,287,171)**	(15,029,607)	(12,510,529)	(12,756,113)	(15,754,715)
Net assets	**14,122,633**	13,368,883	12,934,034	12,535,038	14,370,365

中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

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