



中化化肥控股有限公司  
SINOFERT HOLDINGS LIMITED

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

# NURTURING CHINA'S Agriculture Sector

**Annual Report 2014**



**SINOFERT  
HOLDINGS LIMITED  
ANNUAL REPORT**

**2014**



# CONTENTS

Company Profile and Corporate Information	<b>2</b>
Financial Highlights	<b>5</b>
Chairman’s Statement	<b>8</b>
Management Review and Prospect	<b>12</b>
Management’s Discussion and Analysis	<b>20</b>
Chronicle of Events	<b>33</b>
Directors and Senior Management	<b>35</b>
Corporate Governance Report	<b>41</b>
Directors’ Report	<b>62</b>
Independent Auditor’s Report	<b>83</b>
Consolidated Statement of Profit or Loss and Other Comprehensive Income	<b>85</b>
Consolidated Statement of Financial Position	<b>87</b>
Consolidated Statement of Changes in Equity	<b>89</b>
Consolidated Statement of Cash Flows	<b>91</b>
Notes to the Consolidated Financial Statements	<b>93</b>
Five-Year Financial Summary	<b>176</b>

## 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 (the “Stock Exchange”) (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 and export, distribution, wholesale and retail of fertilizer raw materials and finished products, as well as provision of technical research and development and services in the field of fertilizer-related businesses and products.

Benchmarked by the turnover of 2014, 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 and distribution;
- the largest self-owned and self-run distribution network of agricultural inputs in China;
- its abilities to produce and distribute the most complete varieties of fertilizer products, including nitrogen, phosphate, potash, compound fertilizers and new fertilizers;
- 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 one of the largest feedstuff calcium manufacturers 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 24th time by ranking the 107th in 2014. The second largest shareholder of the Company is Potash Corporation of Saskatchewan Inc., which is the largest potash producer in the world.

## Corporate Information

### Board of Directors

#### Non-Executive Director

Mr. LIU De Shu (*Chairman*)

#### Executive Directors

Mr. WANG Hong Jun (*Chief Executive Officer*)

(appointed on 7 March 2014)

Mr. Harry YANG

#### Non-Executive Directors

Mr. YANG Lin

Dr. Stephen Francis DOWDLE

Ms. XIANG Dan Dan

#### Independent Non-Executive Directors

Mr. KO Ming Tung, Edward

Mr. LU Xin (appointed on 26 February 2015)

Mr. TSE Hau Yin, Aloysius

### Members of Committees

#### Audit Committee

Mr. TSE Hau Yin, Aloysius (*Chairman*)

Mr. KO Ming Tung, Edward

Mr. LU Xin (appointed on 26 February 2015)

#### Remuneration Committee

Mr. KO Ming Tung, Edward (*Chairman*)

(appointed as the Chairman on 26 February 2015)

Mr. LU Xin (appointed on 26 February 2015)

Dr. Stephen Francis DOWDLE

Mr. TSE Hau Yin, Aloysius

Mr. Harry YANG

#### Nomination Committee

Mr. KO Ming Tung, Edward (*Chairman*)

Dr. Stephen Francis DOWDLE

Mr. LU Xin (appointed on 26 February 2015)

Mr. TSE Hau Yin, Aloysius

Mr. Harry YANG

#### Corporate Governance Committee

Mr. WANG Hong Jun (*Chairman*)

(appointed on 7 March 2014)

Mr. Harry YANG

Ms. CHEUNG Kar Mun, Cindy

Ms. DONG Jiao Jiao

#### Chief Financial Officer

Mr. GAO Jian

#### Qualified Accountant

Ms. CHEUNG Kar Mun, Cindy

#### Company Secretary

Ms. CHEUNG Kar Mun, Cindy

#### Auditors

KPMG

#### Legal Adviser

Latham & Watkins 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

## Registered Office

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## Principal Place of Business

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Wanchai, Hong Kong

## Share Registrars and Transfer Offices

### ***Bermuda (Principal office)***

Codan Services Limited  
Clarendon House  
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Hamilton HM11  
Bermuda

### ***Hong Kong (Branch)***

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Hong Kong

## Company Website

[www.sinofert.com](http://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

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## Financial Highlights

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

	<b>2014</b>	2013
Sales volume (in 10,000 tons)	<b>1,463</b>	1,628
Turnover	<b>28,311,086</b>	34,721,849
Gross profit	<b>1,418,101</b>	1,279,496
Profit/(loss) before taxation	<b>272,122</b>	(281,382)
Profit/(loss) attributable to the owners of the Company	<b>229,339</b>	(476,340)
Basic earnings/(losses) per share (RMB)	<b>0.0326</b>	(0.0678)
Return on Equity (Note 1)	<b>1.72%</b>	(3.64%)
Debt to Equity Ratio (Note 2)	<b>20.39%</b>	29.43%

Note 1: Calculated on the basis of profit/(loss) 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 undue bills receivables).





# CHAIRMAN'S STATEMENT



## Nurturing CHINA'S Agriculture Sector

Dear Shareholders,

On behalf of the Board of Directors, I hereby 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 2014 to all the shareholders.

In 2014, the world economy was still sluggish, the growth rate of the Chinese economy gradually slowed down, the oversupply situation in the domestic fertilizer industry was further intensified and a large number of negative factors were witnessed on the international fertilizer market. Against this background, the Group unswervingly promoted strategic agendas put forward at the beginning of the year, actively took measures, made great efforts to mitigate the impact of unfavourable factors and made a profit. The sales volume amounted to 14.63 million tons, decreased by 10.14% year on year; sales revenue of the year amounted to RMB28,311 million, decreased by 18.46% year on year; profit attributable to the shareholders of the Company amounted to RMB229 million, with basic earnings per share of RMB0.0326. The operation quality indicators of the Group were all in good condition with a sound financial situation. At the same time, the Group's operating capacity was consolidated and enhanced and the strategic partnership with international suppliers further stepped up.

Against such severe market situation, the Board of Directors (the "Board") consistently aimed to maximize the shareholders' value in the Group, 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 2014 to review and approve resolutions regarding the annual report, interim report, strategic planning and major investment projects, etc.. The Board also reviewed material investment projects, connected transactions and other matters from time to time. The Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee under the Board exercised their rights and fulfilled their obligations delegated by the Board in terms of the improvement on the Company's internal control, optimization of remuneration policy and improvement of governance structure.

In 2015, it will be difficult to make any distinct improvement on the oversupply situation in the fertilizer industry, the challenge posed by new comers of the industry to the traditional fertilizer operation model will gradually emerge and the market-orientation of fertilizer industry policies will speed up. Meanwhile, the Chinese government is attaching more and more importance to agriculture. The No.1 Document issued on 1 February 2015 by the Central Committee of the Communist Party of China and the State Council of China highlighted that more efforts should be made in reform and innovation and agricultural modernization be quickened, which will bring new opportunities to the Group in respect of transformation and upgrading as well as innovative development.

Confronted with a complex market climate, the Group will stick to the principle of “proactive, safe, sustained and sound” development, centre on transformation and upgrading, take lean management and reform and innovation as the foundation, put down roots in modern agriculture, optimize the business structure and achieve steady and sustainable development in the Company's performance. The Group will bring forth new ideas in the marketing service system, enhance marketing coordination and professional management in headquarters and accelerate the marketing service transformation in distribution networks; improve the basic management level of production enterprises, build a sound management and control system of production enterprises and promote innovation in the management of production enterprises; pool both internal and external resources, set up an open scientific and technological innovation system, upgrade the two capabilities of research and development and technological progress, intensify achievement transformation; and strengthen risk control and ensure operational safety.

Last but not the least, on behalf of the Board, I would like to take this opportunity to extend our appreciations to the shareholders and customers of the Group. We hope to have your continuous concern and support in the future, and expect the management and employees of the Company to bear in mind the concept of “creating value and pursuing excellence”, double our efforts, overcome the difficulties and continue to make contributions to the development of the Group.

**Liu De Shu**

*Chairman of the Board*

Hong Kong, 26 March 2015



# MANAGEMENT REVIEW AND PROSPECT



## Business Environment

**In 2014, confronted with a complex international environment and an arduous task of domestic reform, development and stability, the Chinese government continued with the general policy of making progress while ensuring stability, achieved continuous and steady economic and social development and the economic performance was kept within a reasonable range. In the meanwhile, the development of the Chinese economy was still faced with many difficulties and challenges and the downward pressure on the economy was still relatively huge.**

In 2014, the yield of wheat around the world reached a new historic high, global grain inventory remained at high levels and the international grain price fell to an all-time low since 2010. There was basically sufficient grain supply on the domestic market with China's grain production increasing for the 11th time in a row and more and more grain import. The Chinese government attached high importance to grain safety and the development of modern agriculture. The No.1 Document in 2014 focused on agriculture for the 11th time in succession and specified that rural reform should be deepened in an all-round way and agricultural modernization quickened. The high importance the Chinese government attached to the development of agriculture brought new opportunities for the fertilizer industry.

In 2014, the Chinese fertilizer industry remained sluggish, the oversupply situation intensified, the growth of demand slowed down, the price continued to decline and the competition in the fertilizer industry was even fiercer. At the same time, with continuous price increase of transportation as well as strengthened requirements from safety and environmental protection, enterprises were faced with bigger operation pressure.

Confronted with a global economic downturn, the Group continued to deepen and promote strategic transformation, take lean management and reform and innovation as the foundation, take root in modern agriculture and turned into an agricultural service enterprise providing high-quality fertilizers and solutions.

## Financial Highlights

For the year ended 31 December 2014, the Group's turnover amounted to RMB28,311 million, decreased by 18.46% year on year; and profit for the year attributable to shareholders of the Company amounted to RMB229 million, turning losses into profits compared to 2013. This is mainly due to the fact that the Company exercised stringent control over market risks while adopting various measures to expand sources of income, reduce expenditures and enhance efficiency. The business operation and management of the Company were therefore improved.

## Resource Guarantee

In the year 2014, Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary of the Group, brought into full play its advantage of 300 million tons of high-quality phosphate resources and continued to make more efforts in phosphate mine exploitation. The exploration of Mozushao phosphate mine fully completed the planned task and Sinochem Yunlong realized 617,000 tons of phosphate rock in 2014. In terms of mine construction, Mozushao phosphate mine was listed as one of the "4th Batch of National Green Mine Pilot Units"; the construction of the Dawan mine and the preliminary work for the deep exploration of Mozushao mine were steadily progressed, and the value contribution of phosphate resources was constantly enhanced, which laid a solid foundation

for the Group to get through the industrial chain of phosphate and phosphoric chemicals.

The slowdown in the growth rate of global economy and continuous decline in international bulk commodity provided good opportunities for the Company's efforts in resource guarantee. In 2014, preliminary work was carried out regarding the Group's proposed acquisition of 15.01% equity interest in Qinghai Salt Lake Industry Group Co., Ltd. ("Qinghai Salt Lake") from Sinochem Corporation, an indirect controlling shareholder of the Group. Upon completion, the Group's interests in Qinghai Salt Lake will be increased to about 23.95%, which will further consolidate the market status of the Group on the Chinese potash market. Besides, the Group also actively focused on investment and merger and acquisition opportunities for fertilizer related resources and new fertilizers. Currently, a number of projects are carried out in an orderly way.

## Production and Manufacturing

In 2014, annual fertilizer production capacity of the Group's subsidiaries, associates and joint ventures was stabilized at 12 million tons. Production enterprises continued to push forward advanced manufacturing and through lean management, technological renovation and science and technology innovation, both production and operation levels were further improved.

Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, produced 1.18 million tons phosphate and compound fertilizers and other products during the year. Faced with a downturn of the phosphate industry, Sinochem Fuling insisted on management enhancement and cost reduction and efficiency improvement, optimized procurement process, promoted technological innovation, focused on key markets, integrated logistics resources, enhanced the quality of the personnel, continued with its efforts in scientific and technological innovation, constantly strengthened HSE management

and energy saving and emission reduction and upgraded the comprehensive competitiveness in phosphate fertilizer deep processing through hard internal work.

Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, produced 286,000 tons urea in 2014. Sinochem Changshan carried out differentiated innovation in products, optimized the personnel structure, continued with cost saving, consumption reduction, carried out advanced manufacturing, listed as the first batch of fertilizer enterprises in line with the Entry Requirement for the Synthetic Ammonia Industry by the Ministry of Industry and Information Technology and was named as a "National Top Quality Control (QC) Team in Chemical Industry"; 92% of the urea renovation and expansion project in Sinochem Changshan was completed so far with an acceptance rate of 100%. After the project is put in place, the annual production capacity of synthetic ammonia and urea in Sinochem Changshan will be increased to 360,000 tons and 600,000 tons respectively.

Sinochem Yunlong produced 276,000 tons of feed-grade calcium. Sinochem Yunlong effectively reduced the procurement cost through optimizing the supplier structure and implementing standardized procurement management; and improved its operation efficiency through constant management improvement, product mix adjustment, production consumption reduction, department structure optimization, professional personnel deployment and information construction implementation. Sinochem Yunlong passed the completion acceptance of the comprehensive utilization demonstration project of low-grade phosphate rock and comprehensively utilized low-grade phosphate rock with product quality reaching international advanced level. Sinochem Yunlong steadily promoted the building of a new phospho-gypsum slag site, enhanced the environmental capacity and laid a solid foundation for industrial upgrading.

## Marketing Services

Taking into consideration characteristics of China's agriculture, the Group constantly strengthened the operation foundation through system reform and mode innovation. During the year, sales volume achieved 14.63 million tons, which further consolidated the Group's status as the biggest fertilizer distributor and service provider in China.

**Potash Operations:** Sales volume of potash fertilizer amounted to 2.91 million tons in 2014. The Group maintained its leading status in the domestic potash market by seizing the customers' demand and maintaining good cooperation with core customers in China. The Group strengthened its dominant position in China's potash market by further consolidating the acquisition channels of high-quality potash resources, enhancing the competitiveness of industrial potash in marketing and trading, deepening the connotation of channel marketing of potash for agriculture, speeding up strategic innovation and transformation and building a cutting edge across the product portfolio.

**Nitrogen Operations:** In 2014, 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 a sales volume of 5.30 million tons. The Group continued to strengthen the building of a core supplier system, stepped up cooperation with core suppliers, enhanced the product source guarantee capacity and consolidated the foundation for cooperation; reduced risk and realized steady profitability by controlling open product sources against the market downturn; and sped up development and cultivation of new products with steady improvement in sales volume of new nitrogen products such as UAN and bigger contribution to the profit.

**Phosphate Operations:** Sales volume of phosphate fertilizer amounted to 3.11 million tons for the year 2014. The Group deepened integrated operation and built a strategic supply system with five product supply bases through enhancing operation management; continued to build the core supplier system for DAP business, cultivate the marketing capability and promote the strategy of "one brand for each customer in each county"; increased the proportion of direct supply and direct sales of MAP, strengthened raw material supply from subsidiaries and enhanced the operation scale and profitability of phosphate fertilizer.

**Compound Fertilizer Operations:** Sales volume of compound fertilizers amounted to 2.08 million tons in 2014. The Group deeply promoted the integration and marketing transformation of compound fertilizers, strengthened the coordination of production and sales among the Group's affiliated production enterprises and distribution networks, further promoted the integration of channels between production enterprises and distribution networks and improved operation efficiency; continued to promote the building of marketing capabilities, strengthened the fostering of core dealers, built a network of end core outlets and enhanced the marketing and service capabilities of compound fertilizers; and constantly optimized the product structure of compound fertilizers and sales volume of differentiated products such as chelated fertilizer was notably increased.



## **Monocalcium (MCP)/Monodicalcium phosphate (MDCP) operations:**

Sales volume of MCP/MDCP in 2014 amounted to 0.29 million tons. Sinochem Yunlong effectively reduced the transportation cost through developing and optimizing the logistics structure. While consolidating the existing overseas market, the Group strengthened the domestic sales team building, focused on large domestic feed enterprise customers and met the demand of domestic customers quite well.

In 2014, the Group continued to optimize the existing distribution network and consolidated the customer base so as to optimize the product structure, strengthen the service providing capacity for customers and improve the profitability of the distribution network. The Group continued to promote the marketing transformation of the branches, centred on compound fertilizers and potash for agriculture, strengthened the professional team building in branches, improved the marketing and promotion capacities of the business personnel and built a professional marketing team that know well about both technology and marketing. Besides, the Group signed a Three-year Strategic Cooperation Agreement with the Planting Industry Management Department, Ministry of Agriculture to jointly carry out scientific fertilization and explored innovation in operation models that take root in modern agriculture through formula fertilizer, packages of seed, fertilizer and pesticide as well as combination of agricultural machinery and agronomy, etc..

## **Internal Control and Management**

The Group actively promoted the system building of internal control and risk management. Besides the special committees of the Board, the Group also set up nine special management committees including the risk and internal control management committee, and vigorously promoted the “risk management oriented, internal control centred” internal control and risk management system 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’s central government. Under the principle of “high priority, daily monitoring and mainly transferring”, the Group regularly conducted risk identification, assessment and response, implemented a whole-process risk alarming management mechanism for major risks, strengthened source treatment and accountability through promoting the building of an internal control system and highlighted management and control on key subsidiaries, key business, key process and key risk points while strengthening basic management. The above Corporate Governance efforts met the compliance requirements from the overseas regulatory organizations, provided reasonable protection for the Group to cope with the changing domestic and international operational environment, serve the Group’s strategic transformation and ensured shareholders’ interests, assets safety and strategic implementation.

## 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 endeavoured 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. In 2014, the Group focused on the implementation of agronomic efforts such as agronomic seminars, free soil testing service, building of pilot demonstration fields and anti-counterfeiting and brand protection, promoted the creation of formula fertilizer demonstration counties, the “Double-growth 200” program and the building of field schools for farmers by cooperating with the Ministry of Agriculture and local agricultural departments. By the end of 2014, 13,050 activities were carried out and 1,223 demonstration fields, 19 scientific fertilization demonstration counties and 178 field schools for farmers were built, which benefited over 620,000 farmers.

In order to better implement scientific fertilization, the Group deepened its cooperation with the Planting Industry Management Department, Ministry of Agriculture and signed the “Memorandum on Jointly Promoting Scientific Fertilization” with the latter in order to explore a long-term mechanism for the formula fertilization promotion through the cooperation between farmers and enterprises, gradually enhance the scientific fertilization level of farmers and promote the increase of grain output and improvement of agricultural efficiency as well as the transformation and upgrading of the fertilizer industry. The campaign to create demonstration counties for agronomic service – “Sinofert Devotion and Rural Dreams” and formula fertilization promotion through the cooperation between farmers and enterprises launched by the Group and the Planting Industry Management Department, Ministry of Agriculture was kicked off on 2 April, 2014

in Heshan District, Yiyang City, Hunan province and Mr. He Caiwen, Deputy Director of the Planting Industry Management Department, Ministry of Agriculture witnessed the launching ceremony.

Sinochem Fertilizer Co., Ltd. (“Sinochem Fertilizer”), a subsidiary of the Group, together with the Ministry of Agriculture, carried out the program of “Double-growth 200” in Northeast China for the third consecutive year in order to promote the increase of corn output and farmers’ income in Northeast China. As a result, 600 activities including technological training, field guidance and observation tours were carried out and 20,000 wall charts of corn and brochures on planting technology were extended, which benefited 50,000 farmers.

Sinochem Fertilizer, a subsidiary of the Group, cooperated with the Department of Science & Education, Ministry of Agriculture as well as the Central Agricultural Broadcasting and Television School to jointly launch the “Workshop for the Training of New Professional Farmers and Capability Enhancement of Grain King in Northeast China” in Harbin City, Heilongjiang Province, which were attended by over 100 big grain production households from Heilongjiang, Jilin, Liaoning, Inner Mongolia and the Agriculture Bureau of Heilongjiang. The workshops were based on the “Education Program for New Professional Farmers” of the Department of Science & Education, Ministry of Agriculture and were an effective attempt jointly launched by government department, enterprise and university for new production and operation oriented professional farmers in the three provinces in Northeast China, Inner Mongolia Autonomous Region and the Agriculture Bureau of Heilongjiang.

In the future, the Group will continue to focus on the development of modern agriculture and the scientific and technological demand of farmers, deepen the cooperation with the Chinese government, scientific institutions and colleges and universities, centred on key projects such as soil testing and formula fertilization, combination of agricultural machinery and agronomy, integration of water and fertilizer and integrated solutions for crops, pool the internal and external resources, constantly make innovations in terms of service measures and continue to provide high-quality, professional and high-efficiency comprehensive service for farmers in China.

The Group continued to strengthen HSE management, combined it with production operation and the sustainable development, built a professional HSE team, strengthened the HSE system development and training in the headquarters and relevant key subsidiaries, associates and joint ventures and constantly promoted the rectification of potential safety hazards. Progress was achieved in the environmental protection and emission reduction effort and the four obligatory indicators were all reduced. In particular, the emission of SO<sub>2</sub> was down by 24.1%, COD by 8.2%, NH<sub>3</sub>-N by 16.1% and NO<sub>x</sub> by 19.9%.

## Outlook

Against the background of a continuous global economic slump, the Chinese economy will remain at “a new normal phase” of steady growth and restructuring for a relatively long time to come. The Chinese government will continue with the general policy of making progress while ensuring

stability, deepen reform in an all-round way, maintain the continuity and stability of macro policies and realize continued and steady economic and social development.

The No.1 Document in 2015 continues to focus on agriculture and highlights that new potential should be tapped in increasing grain production capacity, new road explored in optimizing agricultural structure, new breakthrough made in transforming agricultural development mode, new results achieved in increasing farmers' income, new steps taken in building a new countryside and strong support provided for the continued and sound economic and social development under the general requirement of stabilizing grain yield and increasing farmers' income, improving quality and increasing efficiency as well as innovation-driven development.

China is now the biggest fertilizer producer and consumer in the world. The surplus fertilizer production capacity and the increasing pressure on grain safety in China have brought huge challenges to the sustainable development of agriculture; at the same time, the fact that modern agriculture is still growing will provide opportunities for the Group's development. As a leading fertilizer enterprise in china, the Group will focus on the promotion of strategic transformation, strive to become a global leading provider of agricultural inputs and agrochemical services, create value for owners of the Company and make bigger contribution to national food security and industrial development.



# MANAGEMENT'S DISCUSSION AND ANALYSIS



# MANAGEMENT'S DISCUSSION AND ANALYSIS

**For the twelve months ended 31 December 2014, sales volume of the Group was 14.63 million tons, and turnover amounted to RMB28,311 million, decreased by 10.14% and 18.46% respectively, over the corresponding period of 2013.**

For the twelve months ended 31 December 2014, gross profit of the Group amounted to RMB1,418 million, increased by RMB139 million over the corresponding period of 2013. The profit for the year attributable to owners of the Company amounted to RMB229 million. Confronted with the decline in product prices and the oversupply in the industry in 2014, the management of the Group strictly controlled the business risks, seized the opportunities in the market, and continued to adopt the operational guideline of “reducing cost and improving efficiency”, leading the Group back in the black.

## I. Operation Scale

### 1. Sales Volume

For the twelve months ended 31 December 2014, sales volume of the Group was 14.63 million tons, decreased by 10.14% over the corresponding period of 2013. In 2014, the fertilizer market continued to be oversupplied which resulted in the decline of sales volume of major fertilizers of the Group compared to 2013 with sales volume of domestic fertilizers down by 18.44% year on year to 10.05 million tons; however, with the Group's continuous efforts, sales volume of imported fertilizers amounted to 3.34 million tons, which increased slightly compared to 2013.

In terms of product mix, sales volume of compound fertilizer of the Group increased by 4.71% year on year while sales volume of potash, nitrogen and phosphate declined by 3.13%, 26.99% and 7.87% respectively due to the weak fertilizer market. Under the severe market conditions, the Group still maintained a relatively high market share through strengthening strategic partnership with core domestic and overseas suppliers and continuing to secure the supply of competitive products steadily.

## 2. Turnover

For the twelve months ended 31 December 2014, turnover of the Group amounted to RMB28,311 million, decreased by RMB6,411 million or 18.46% over the corresponding period of 2013. The fall range of turnover was higher than that of sales volume (10.14%), which was mainly attributable to the fact that the Group's average selling price decreased by 9.26% year on year due to the falling prices of fertilizers in the market in 2014.

**Table 1:**

	For the twelve months ended 31 December			
	2014	As percentage of total turnover	2013	As percentage of total turnover
	Turnover <i>RMB'000</i>		Turnover <i>RMB'000</i>	
Potash fertilizer	6,242,557	22.05%	7,464,758	21.50%
Nitrogen fertilizer	7,753,464	27.39%	12,474,903	35.93%
Compound fertilizer	5,441,242	19.22%	5,450,853	15.70%
Phosphate fertilizer	6,941,815	24.52%	7,936,128	22.86%
MCP/MDCP	721,969	2.55%	626,862	1.80%
Others	1,210,039	4.27%	768,345	2.21%
<b>Total</b>	<b>28,311,086</b>	<b>100.00%</b>	<b>34,721,849</b>	<b>100.00%</b>

### 3. Turnover and Result by Segment

The operating segments of the Group are divided into Marketing Segment (procurement and distribution of fertilizers and related products) and Production Segment (production and sales of fertilizers).

The following is an analysis of the Group's turnover and profit by operating segment for the twelve months ended 31 December 2014 and the corresponding period of 2013:

**Table 2:**

#### 2014

	Marketing <i>RMB'000</i>	Production <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Turnover</b>				
External sales	26,105,227	2,205,859	–	28,311,086
Inter-segment sales	962,691	2,774,971	(3,737,662)	–
Total	<b>27,067,918</b>	<b>4,980,830</b>	<b>(3,737,662)</b>	<b>28,311,086</b>
Segment gross profit	1,052,450	365,651	–	1,418,101
Segment profit/(loss)	377,808	(214,413)	–	163,395

#### 2013

<b>Turnover</b>				
External sales	31,080,307	3,641,542	–	34,721,849
Inter-segment sales	491,552	1,702,701	(2,194,253)	–
Total	31,571,859	5,344,243	(2,194,253)	34,721,849
Segment gross profit	852,144	427,352	–	1,279,496
Segment profit/(loss)	61,798	(252,306)	–	(190,508)



Segment profit/(loss) represents the profit/(loss) earned by each segment without deducting unallocated expenses and income, share of results of associates, joint ventures and finance costs. Such information was reported to the Group's chief operating decision makers for the purposes of resource allocation and performance assessment.

For the twelve months ended 31 December 2014, the external sales turnover decreased by RMB6,411 million over the corresponding period of 2013, which was attributable to that the prices of products and the sales volume dropped due to oversupply in overseas and domestic markets in 2014.

For the twelve months ended 31 December 2014, the segment profit of the Group was RMB163 million. Among which, Marketing Segment successfully realized a profit of RMB378 million through seizing market opportunities and accelerating inventory turnover in the descending market conditions, increased by RMB316 million over the corresponding period of 2013; meanwhile, though there is no change to the oversupply situation of the fertilizer industry in 2014, through continuing to adopt the operational guideline of "reducing cost and improving efficiency", the loss that the Production Segment suffered decreased by RMB38 million over the corresponding period of 2013, which witnessed preliminary results of the management policy.

## II. Profit

### 1. Gross profit

For the twelve months ended 31 December 2014, gross profit of the Group amounted to RMB1,418 million, increased by RMB139 million over the corresponding period of 2013.

The Group undertook different strategies for different products. In terms of potash, the gross profit increased by 59% year on year, mainly through constantly deepening the operation transformation and steadily strengthening the channel marketing of potash for agriculture; in terms of phosphate, the gross profit increased by 13% year on year, mainly through strengthening the dynamic management of suppliers, optimizing the distribution of logistics and reinforcing the brand management; in terms of compound fertilizer, influenced by the oversupply situation in the market, the gross profit was slightly lower than that of 2013 as the Group undertook the profit model of integrating of production, supply and marketing and optimized the structure of the products; in terms of nitrogen, the Group strictly controlled the risks and cautiously operated the business, but the gross profit still declined by 31% compared to 2013 as the selling price of nitrogen stayed low in 2014.

In summary, under the complex conditions of the fertilizer market, the Group steadily carried out the transformation of marketing and reinforced the basic management of the production business with progress in strategic development and management improvement, which led to relatively good operating performance in 2014.

## 2. Share of results of joint ventures and associates

**Share of results of joint ventures:** For the twelve months ended 31 December 2014, the share of results of joint ventures of the Group amounted to a loss of RMB56 million. Among the Group's affiliated enterprises, the share of results of joint ventures from Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") was a loss of RMB67 million, increased by RMB48 million year on year because of the decline of sales amount and selling price as the oversupply situation in the phosphorous chemicals industry did not improve.

**Share of results of associates:** For the year ended 31 December 2014, the share of results of associates of the Group amounted to RMB134 million, increased by RMB28 million over the corresponding period of 2013. This was mainly attributable to the significant profit increase from Qinghai Salt Lake Industry Group Co., Ltd. ("Qinghai Salt Lake"), one of the Group's associates.

## 3. Income tax expenses

For the twelve months ended 31 December 2014, income tax expense of the Group was RMB137 million, decreased by RMB206 million over the corresponding period of 2013. This was mainly attributable to the fact that RMB126 million of deferred income tax was reversed at expiry from the provision made in the previous years by Sinochem Fertilizer Co., Ltd., ("Sinochem Fertilizer") a subsidiary of the Group, and RMB351 million deferred income tax was written down in 2013 as it was expected that there might not be sufficient taxable profit available in the future.

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

## 4. Net profit attributable to owners of the Company

For the twelve months ended 31 December 2014, net profit attributable to owners of the Company was RMB229 million. This was mainly attributed to that confronted with the severe market conditions, the Group adopted many operation measures and seized market opportunities, which led to a higher level of profitability.

For the twelve months ended 31 December 2014, the net profit margin was 0.81%, which is calculated based on profit attributable to owners of the Company divided by turnover.

## III. Expenditures

For the twelve months ended 31 December 2014, three expenses amounted to RMB1,584 million, decreased by RMB145 million or 8.39% from RMB1,729 million over the corresponding period of 2013.

**Selling and distribution expenses:** For the twelve months ended 31 December 2014, selling and distribution expenses amounted to RMB841 million, decreased by RMB13 million or 1.52% from RMB854 million over the corresponding period of 2013. The decrease was mainly attributable to the fact that under the severe market conditions, the Group constantly accelerated the inventory turnover so that the warehousing costs decreased by RMB22 million year on year; meanwhile, with domestic logistics costs rising in 2014, the logistics costs of the Group increased by RMB9 million year on year.

**Administrative expenses:** For the twelve months ended 31 December 2014, administrative expenses amounted to RMB600 million, decreased by RMB33 million compared to RMB633 million for the year ended 31 December 2013. This was mainly attributable to that the Group continued to adopt the operational guideline of “reducing cost and improving efficiency” and constantly cut down various expenses, which led to the reduction of administrative expenses.

**Finance costs:** For the twelve months ended 31 December 2014, finance costs amounted to RMB143 million, decreased by RMB98 million or 40.66% from RMB241 million over the corresponding period of 2013. This was mainly because: (1) due to the reduction of the average scale of the Group's borrowings in 2014, the interest expense was reduced by RMB5 million compared to that in 2013; and (2) the Group brought into full play the advantage of domestic and overseas capital platform and constantly reduced the financial costs, which led to the decline of interest expense of RMB93 million year on year.

## IV. Other Income and Gains

For the twelve months ended 31 December 2014, the Group's other income and gains amounted to RMB464 million, increased by RMB220 million or 90.16% from RMB244 million over the corresponding period of 2013. This was mainly attributable to the fact that Sinochem Fertilizer, Guizhou Kailin Holdings (Group) Co., Ltd. (“Kailin Holdings”), Guizhou Kailin Group Co., Ltd. (“Kailin Group”) and other parties entered into a capital increase agreement in 2014. According to the agreement, Sinochem Fertilizer agreed to subscribe for the enlarged registered capital of Kailin Group and as a consideration of which, Sinochem Fertilizer transferred its 13.41% equity interest in Guiyang Sinochem Kailin Fertilizer Co., Ltd. (“Sinochem Kailin”) to Kailin Group. This equity transfer is considered as a disposal of the available-for-sale investment and as a result, other income and gains in 2014 increased by RMB107 million year on year; meanwhile, the Group constantly strengthened capital management and improved the capital utilization, and the interest income and the exchange gain increased by RMB103 million compared to 2013.

## V. Other Expenses and Losses

For the twelve months ended 31 December 2014, the Group's other expenses and losses amounted to RMB104 million, decreased by RMB63 million or 37.72% from RMB167 million over the corresponding period of 2013. This was mainly attributable to the fact that with the slow recovery of the market in the beginning of 2015, the sales price of every product has been rebounded to a varying degree, and thus the provision for the written-down of inventory decreased by RMB67 million in 2014 compared to 2013.

## VI. Inventory

The inventory balance of the Group as at 31 December 2014 amounted to RMB5,948 million, increased by RMB1,555 million or 35.40% from RMB4,393 million as at 31 December 2013. This was mainly attributable to the fact that the Group increased inventory purchases at the end of 2014 in order to timely meet the market demand and control the costs as the purchase prices were low in 2014 and the market condition was improving at the end of 2014. Due to the increase of inventory scale, inventory turnover days<sup>(Note)</sup> increased from 53 days in 2013 to 69 days in 2014.

*Note:* Calculated on the basis of average inventory balance as at the end of the reporting period divided by cost of goods sold, and multiplied by 360 days.

## VII. Trade and Bills Receivables

The balance of the Group's trade and bills receivables as at 31 December 2014 amounted to RMB1,276 million, increased by RMB26 million or 2.08% from RMB1,250 million as at 31 December 2013. Due to the impact of the external economic environment, the Group granted credit to customers with good reputation in order to increase sales and therefore more bills receivables were accepted compared to 2013.

Both the turnover and the balance of trade and bills receivables of the Group decreased year on year, and the trade and bills receivables turnover day<sup>(Note)</sup> was 15 days in 2014, 3 days less than the 12 days in 2013.

*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)

## VIII. Interests in Joint Ventures

As at 31 December 2014, the balance of the Group's interests in joint ventures amounted to RMB540 million, decreased by RMB9 million or 1.64% from RMB549 million as at 31 December 2013. This was mainly attributable to the declining results of joint ventures of the Group due to the oversupply condition and falling sales price in the domestic fertilizer industry in 2014. Among the joint ventures, Three Circles-Sinochem suffered losses in 2014, which led to the decreasing interests of RMB67 million in joint ventures under the equity accounting method; and meanwhile, the Group added a new joint venture, Hainan Zhongsheng Agricultural Technology Co., Ltd., which led to the increasing interests in joint ventures of RMB51 million.

## IX. Interests in Associates

The balance of the Group's interests in associates as at 31 December 2014 amounted to RMB8,359 million, increased by RMB123 million or 1.49% from RMB8,236 million as at 31 December 2013, including:

1. Share of results of associates for the year 2014 amounted to RMB134 million, which increased interests in associates;
2. The Group received the dividend of RMB11 million from associates of the Group in 2014, which resulted in a decrease of interests in associates.

## X. Available-for-sale Investments

As at 31 December 2014, the balance of the Group's available-for-sale investments amounted to RMB474 million, increased by RMB101 million or 27.08% from RMB373 million as at 31 December 2013. This is mainly attributed to the fact that Sinochem Fertilizer, a subsidiary of the Group, Kailin Holdings, Kailin Group and other parties entered into a capital increase agreement in 2014. According to the agreement, Sinochem Fertilizer agreed to subscribe for the enlarged registered capital of Kailin Group and as a consideration of which, Sinochem Fertilizer transferred its 13.41% equity interest in Sinochem Kailin to Kailin Group, which led to the increasing available-for-sale investments of RMB107 million compared to that at 31 December 2013. Meanwhile, the stock price of China XLX Fertiliser Co., Ltd., whose shares were held by a subsidiary of the Group, at 31 December 2014, was in decline, which led to the decrease in available-for-sale investments of RMB6 million compared to that at 31 December 2013.

## XI. Interest-bearing borrowings

As at 31 December 2014, the Group's liabilities with interests amounted to RMB2,873 million, decreased by RMB1,038 million from RMB3,911 million as at 31 December 2013. In which:

### (1) Borrowings

As at 31 December 2014, the balance of the Group's borrowings amounted to RMB2,873 million, decreased by RMB38 million or 1.31% from RMB2,911 million as at 31 December 2013. This was mainly attributable to that the Group repaid part of the external borrowings and cut down the scale of borrowings in 2014.

### (2) Short-Term Commercial Paper

The Group repaid the RMB1 billion one-year short-term commercial paper on 25 April 2014 which was issued in 2013.

## XII. Trade and Bills Payables

As at 31 December 2014, the balance of the Group's trade and bills payables amounted to RMB4,629 million, increased by RMB2,010 million or 76.75% from RMB2,619 million as at 31 December 2013. This was mainly attributable to the fact that the Group upsized the inventory scale at the end of 2014, which resulted in the increase of bills and accounts payable correspondingly.

## XIII. Other Financial Indicators

Basic earnings per share for the twelve months ended 31 December 2014 amounted to RMB0.0326, and return on equity (ROE) for the twelve months ended 31 December 2014 was 1.72%, both higher than those in 2013, which was mainly attributable to the fact that the Group turned losses to profits.

**Table 3:**

	<b>2014</b>	2013
<b>Profitability</b>		
Earnings/(losses) per share (RMB) <i>(Note 1)</i>	<b>0.0326</b>	(0.0678)
ROE <i>(Note 2)</i>	<b>1.72%</b>	(3.64%)

*Note 1:* Calculated based on profit/(loss) 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/(loss) 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 2014, the Group's current ratio was 1.12, and the debt-to-equity ratio was 20.39%. The Group maintained a stable financial structure through actively undertaking various operating measures under the weak fertilizer market.

**Table 4:**

	2014	2013
<b>Liquidity and Capital adequacy</b>		
Current ratio <i>(Note 1)</i>	<b>1.12</b>	1.17
Debt-to-Equity ratio <i>(Note 2)</i>	<b>20.39%</b>	29.43%

*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).

## XIV. Liquidity and Financial Resources

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

As at 31 December 2014, cash and cash equivalents of the Group amounted to RMB463 million, which was mainly denominated in RMB and US dollar.

Below is the analysis of interest-bearing borrowings of the Group:

**Table 5:**

	<b>As at 31 December</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
Bank borrowings, secured	<b>144,411</b>	–
Bank borrowings, unsecured	<b>40,000</b>	425,335
Short-term commercial paper	–	1,000,000
Borrowings from Sinochem Group	<b>200,000</b>	–
Bonds		
Principal amount	<b>2,500,000</b>	2,500,000
Less: amortized transaction costs	<b>(11,515)</b>	(13,865)
<b>Total</b>	<b>2,872,896</b>	3,911,470

**Table 6:**

	<b>As at 31 December</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	<i>RMB'000</i>
Carrying amount repayable		
Within one year	<b>184,411</b>	1,425,335
More than one year, but within five years	<b>2,688,485</b>	–
More than five years	–	2,486,135
<b>Total</b>	<b>2,872,896</b>	3,911,470

**Table 7:**

	<b>As at 31 December</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	<i>RMB'000</i>
Fixed-rate borrowings	<b>2,872,896</b>	3,811,470
Variable-rate borrowings	–	100,000
<b>Total</b>	<b>2,872,896</b>	3,911,470

As at 31 December 2014, the Group had banking facilities equal to RMB24,707 million, including US\$1,905 million and RMB13,050 million, respectively. The amount of utilized banking facilities amounted to US\$306 million and RMB921 million, and unutilized banking facilities amounted to US\$1,599 million and RMB12,129 million, respectively.

As at 31 December 2014, the Group had bills receivables with the book value of RMB144 million in banks for discount.

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

## XV. Operation and Financial Risks

The Group's major operation risks include: the recovery of the world economy was still faced with great uncertainty; the fertilizer price was quite volatile in the domestic market due to oversupply; and competition in the circulation sector would get increasingly intense as market-oriented reforms in the fertilizer industry deepened and the industrial structure was adjusted.

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 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 bank deposits; and other price risk represents the Group's risk related to the value of equity investments, which mainly derived from investments in equity securities.

The majority of the Group's assets, liabilities and transactions are denominated in RMB, US dollar and Hong Kong dollar. In addition, the management continued to monitor and control the exchange rate risk so as to mitigate potential negative impact on the Group's financial performance.

## **Credit risk**

The biggest credit risk of the Group was subject to that the counterparties might fail to carry out their obligations with regard to the book value of all types of financial assets confirmed and recorded in the comprehensive financial statement by counterparties on 31 December 2014. The Group has adequate monitoring procedures and corresponding measures in respect of granting credit, credit approval and other related aspects so as to ensure the timely follow-up of credit to be matured to mitigate the credit risk.

## **Liquidity risk**

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

## **XVI. Contingent Liabilities**

As at 31 December 2014, the Group had no contingent liabilities.

## XVII. Capital Commitment

Table 8:

	<b>As at 31 December</b>	
	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
<b>Contracted but not provided for</b>		
– Property, plant and equipment	<b>266,793</b>	373,729
<b>Authorized but not contracted for</b>		
– Property, plant and equipment	<b>609,617</b>	1,156,236
– Investments in associate and others	<b>4,190,101</b>	–
<b>Total</b>	<b>5,066,511</b>	1,529,965

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

## XVIII. Material Investments

On 9 December 2014, the Board announced that Sinochem Fertilizer proposed to enter into a share transfer agreement with Sinochem Corporation, pursuant to which Sinochem Fertilizer shall acquire, and Sinochem Corporation shall sell, 238,791,954 issued shares of Qinghai Salt Lake, representing 15.01% of its total issued share capital, at a total consideration of RMB3,890,101,118.75 (the "Acquisition"). Prior to the Acquisition, Sinochem Fertilizer owns 142,260,369 shares of Qinghai Salt Lake, representing 8.94% of its total issued share capital. Upon completion of the Acquisition, Sinochem Fertilizer will hold 381,052,323 shares of Qinghai Salt Lake, representing 23.95% of the total share capital and will become the second largest shareholder of Qinghai Salt Lake. The details of the proposed Acquisition were disclosed in the circular of the Company dated 27 January 2015. The Acquisition was subsequently approved by the independent shareholders in a special general meeting held on 12 February 2015.

## XIX. Material Disposal

On 29 September 2014, Sinochem Fertilizer, Kailin Holdings, Kailin Group and other parties entered into a capital increase agreement, pursuant to which Sinochem Fertilizer subscribed for approximately 3.71% of the enlarged registered capital of Kailin Group and as a consideration of which, Sinochem Fertilizer transferred its 13.41% equity interest in Sinochem Kailin to Kailin Group.

## XX. Human Resources

As at 31 December 2014, the Group had about 7,257 full-time employees (including those employed by the Group's subsidiaries), and their remuneration is determined with reference to market rates. No individual employee shall have the right to determine his/her own remuneration. For details of the remuneration policy of the Group, please refer to the "Corporate Governance Report" of this annual report on page 50 to 51.

## January 2014

The Group and the Planting Industry Management Department, Ministry of Agriculture signed “Memorandum on Jointly Promoting Scientific Fertilization”. The two parties would conduct comprehensive cooperation with regards to setting and releasing fertilizer formulas, producing and supplying formula fertilizers, connecting the production and demand of formula fertilizers, promoting and training on scientific fertilization, and providing guidance to farmers on fertilization.

The Group and Dow AgroSciences (DAS) held the signing ceremony of Strategic Cooperation Agreement on Entrench Nitrogen Stabiliser in Beijing. DAS would authorize Sinofert to exclusively develop the marketing of Entrench Nitrogen Stabiliser in China.

## February 2014

The campaign to create demonstration counties for agronomic service – “Sinofert Devotion and Rural Dreams” and formula fertilization promotion through the cooperation between farmers and enterprises launched by the Group and the Planting Industry Management Department, Ministry of Agriculture was kicked off.

## March 2014

Mr. Wang Hong Jun succeeded Mr. Feng Zhi Bin as the Chief Executive Officer of the Group.

Two patents of Sinochem Shandong Company Limited, a subsidiary of the Group, were authorized, i.e. “An Ammonia-acid Process of Direct Granulation in Producing Chelate Compound Fertilizer” and “A Spray Granulation Process of Producing Organic Chelate Compound Fertilizer”.

## April 2014

The Group sent a delegation to attend the 2014 FMB Asia Fertilizer Conference in Beijing. During the conference, the delegation exchanged views with major international producers and traders.

The Group hosted “Sinofert Day” with Canpotex in Shanghai. The two companies conducted in-depth discussions on the Chinese market situation and future cooperation.

The Group, the Planting Industry Management Department, Ministry of Agriculture, and National Agricultural Technology Extension and Service Center co-organized the kick-off ceremony of “Establishing Demonstration Counties for Formula Fertilization Promotion Through the Cooperation Between Farmers and Enterprises” in Yiyang, Hunan Province.

Sinochem Changshan Chemicals Co., Ltd. (“Sinochem Changshan”), a subsidiary of the Group, was shortlisted for the first group of enterprises in line with the Entry Requirement for the Synthetic Ammonia Industry by the Ministry of Industry and Information Technology.

## May 2014

Wang Hong Jun, CEO of the Company, led a delegation of the Company to attend the 82nd International Fertilizer Industry Association (IFA) Annual Conference in Sydney, Australia and conducted an in-depth exchanges with international suppliers and customers.

Sinochem Changshan, a subsidiary of the Company, was shortlisted for the first group of enterprises on Working Plans and Pilot Projects of Implementing Standards on Integrating Industrialization and Informatization by the Ministry of Industry and Information Technology.

The science and technology initiative of “Double Growth 200” for corn in Northeast China and “The Third Sinochem Cup of King Corn Challenge” co-organized by the Group and the Ministry of Agriculture were kicked off.

## June 2014

Sinochem Yunlong Co., Ltd., a subsidiary of the Group, was granted the title of being one of the “4th Batch of National Green Mine Pilot Units”.

## July 2014

Sinochem Changshan, a subsidiary of the Group, was awarded “A Top Ten Company in Comprehensive Strength”, “Company of Technology Innovation”, “Company of Integrity” and “Products to Farmers’ Satisfaction” granted by the fertilizer and pesticide industry in Jilin Province in 2014.

## September 2014

Wang Hong Jun, CEO of the Company, led a delegation of the Company to attend The Fertilizer Institute (TFI) conference in San Francisco and conducted in-depth discussions with major global suppliers of potash, phosphate, and NPK, etc..

Sinochem Fertilizer, a subsidiary of the Group, and the Planting Industry Management Department, Ministry of Agriculture hosted Result Reviewing Meeting of the “Scientific Fertilization” Demonstration County in Longjiang County of Heilongjiang Province.

Sinochem Fertilizer, a subsidiary of the Group and China Minsheng Bank entered into an agreement on financial service, arranging the provision of financing services to the small and medium-sized customers and suppliers of the Company within a credit line of RMB2 billion.

## October 2014

The Board of Directors of the Company reviewed and approved the acquisition of the equity interests in Qinghai Salt Lake Industry Group Co., Ltd. held by Sinochem Corporation.

The laboratory of Sinochem Yantai Crop Nutrition Co., Ltd., a subsidiary of the Group, passed the review by China National Accreditation Service (CNAS) for Conformity Assessment.

A corn demonstration farm managed by the Group participated in the “Challenge Contest on the King of Corn” organized by the Ministry of Agriculture and achieved the high yield of 1,227.42kg per mu as tested by experts, realizing a yield breakthrough in the First Accumulated Temperature Zone.

## November 2014

Sinochem Fertilizer, a subsidiary of the Group, and China Guangfa Bank entered into “Strategic Cooperation Agreement Between Banks and Enterprises” in Beijing, arranging the provision of financing services to the Group’s small and medium-sized customers and suppliers within the credit line of RMB1.8 billion.

## December 2014

Sinochem Fertilizer, a subsidiary of the Group, and the Postal Savings Bank of China signed the Strategic Cooperation Agreement Between Banks and Enterprises in Beijing, arranged RMB10 billion credit line in the next three years to provide financing services for small and medium-sized customers and suppliers to the company.

## Directors

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

**Mr. LIU De Shu**, aged 62, joined the Company in April 2004 and is currently the Chairman of the Board. Mr. Liu graduated from Tsinghua University in China in April 1979 and got his EMBA degree from China Europe International Business School in 1998. During March 1998 up to August 2014, Mr. Liu worked as President of Sinochem Group, parent company of Sinochem Hong Kong (Group) Limited. Since August 2014, Mr. Liu became the chairman of Sinochem Group. Before joining Sinochem Group, he had been the 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 and Far East Horizon Limited (a company listed on the Main Board of the Stock Exchange), and director of Commercial Aircraft Corporation of China Limited and China International Trade Center.

Mr. Liu has rich business management experience and strong enterprise leadership, and has profound understanding of and pragmatic experiences in corporate strategic development, operation and internal control. Due to the outstanding performance of Sinochem Group under his leadership, Mr. Liu was honoured 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 Edition) in three consecutive years from 2011 to 2013, and one of the “National Outstanding Entrepreneurs” by China Enterprise Confederation in 2012. In 2013, Mr Liu was awarded as one of the ten most innovative Chinese enterprise leaders by The Chinese Association of Productivity Science.

Currently, Mr. Liu is a member of the 12th National People’s Congress (NPC), the vice chairman of the 12th session of the NPC Environmental and Resources Protection Committee and a director of International Academy of Management (IAM), and vice chairman of China Shippers’ Association.

### **Mr. WANG Hong Jun – Executive Director and Chief Executive Officer, and Chairman of Corporate Governance Committee**

**Mr. WANG Hong Jun**, aged 50, joined the Company in March 2014 as an Executive Director and Chief Executive Officer, and is also the Chairman of Corporate Governance Committee of the Company. Mr. Wang graduated from Shenyang Architectural and Civil Engineering University with a bachelor’s degree in Mechanical Engineering in 1985, and obtained a Master’s degree in World Economics from Renmin University of China in 1991 and an EMBA from China Europe International Business School in 2003. Prior to joining Sinochem Group, Mr. Wang once worked for Shenyang Architectural and Civil Engineering University and China Institutes of Contemporary International Relations. In 1995, he joined Sinochem Group and had held various positions including deputy manager of the strategy department, manager of share structure reform committee of corporate development department, deputy general manager and general manager of strategy planning department of Sinochem Group. Starting from April 2012, Mr. Wang held the positions of assistant to the general manager of Sinochem Group and Sinochem Corporation, respectively, and acted as the general manager of Sinochem Agro Co., Ltd.. Mr. Wang was a non-executive director of Frashion Properties (China) Limited, a company listed on the Main Board of the Stock Exchange, from March 2007 to June 2011.

### **Mr. Harry YANG – Executive Director and Deputy General Manager**

**Mr. Harry YANG**, aged 52, is an Executive Director and Deputy General Manager of the Company, mainly responsible for overseeing the Company's investment, investor relations and legal affairs. 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's degree in English and from the University of International Business and Economics in 1989 with a Master's 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 vice chairman of the board of US Agri-Chemicals Corporation. In 2002, Mr. Yang was appointed as the deputy director of fertilizer centre, and was promoted to the present position in March 2006. Mr. Yang has 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 51, 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 fund management. Mr. Yang worked at Siemens AG and later as 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 general manager of the finance department, deputy general manager of the investment and development department, general manager of the fund management 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 (stock code: 3360). 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. In addition, Mr. Yang has been a non-executive director and a member of the audit committee of Franshion Properties (China) Limited, a subsidiary of Sinochem Group and listed on the Main Board of the Stock Exchange (stock code: 0817), since February 2014.

### **Dr. Stephen Francis DOWDLE – Non-executive Director**

**Dr. Stephen Francis DOWDLE**, aged 64, 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 also serves on the board of directors of Canpotex Limited, an export marketing association composed of the three potash producers (including PotashCorp) in Saskatchewan, Canada 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 29 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 48, 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 had served as 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. during the period from January 2006 to June 2012. 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 15 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 and Remuneration Committee**

**Mr. KO Ming Tung, Edward**, aged 54, was appointed as an Independent Non-executive Director of the Company in April 2000. He is also the Chairman of the Nomination Committee and the Remuneration Committee and a member of the Audit 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 23 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 EverChina Int’l Holdings Company Limited (formerly known as Interchina Holdings Company Limited), and a non-executive director of Harmonic Strait Financial Holdings Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange.

### **Mr. LU Xin – Independent Non-executive Director**

**Mr. LU Xin**, aged 51, was appointed as an Independent Non-executive Director of the Company in February 2015. He is also a member of the Audit Committee, Nomination Committee and Remuneration Committee of the Company. Mr. Lu graduated from Dongbei University of Finance and Economics in China in 1987 with a bachelor's degree in Economics, and was awarded a master of business administration by the University of South Australia in 2006. Mr. Lu Xin worked for the Ministry of Finance of the People's Republic of China from 1987 to 1992 and China Trust and Investment Corporation for Economic Development from 1992 to 1995. Since 1995, Mr. Lu Xin has been successively served as the assistant general manager, deputy general manager and managing director of Golden Sino (Holdings) Limited. From 2001 to 2004, Mr. Lu Xin was the executive director and deputy chairman of the Board and the managing director of the Company (formerly known as Wah Tak Fung Holdings Limited). From 2008 to 2010, Mr. Lu was the independent non-executive director of Sino Resources Group Limited, and currently he is an investment consultant of Wai Chun Group Holdings Limited, both companies are listed on the Main Board of the Stock Exchange. Mr. Lu is also the chairman of World International Consulting Limited at present. Mr. Lu Xin has over 25 years of experience in finance, investment and corporate management with extensive knowledge about economic activities of Hong Kong and mainland China.

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

**Mr. TSE Hau Yin, Aloysius**, aged 67, 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, Linmark Group Limited and SJM Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange. In addition to the above, Mr. Tse is currently an independent non-executive director of CCB International (Holdings) Limited, a wholly-owned subsidiary of China Construction Bank Corporation whose shares are listed on the Stock Exchange and an independent non-executive director of OCBC Wing Hang Bank Limited (formerly known as Wing Hang Bank Limited), which was listed on the Main Board of the Stock Exchange until October 2014. He was an independent non-executive director of China Construction Bank Corporation, which is listed on the Main Board of the Stock Exchange, from 2004 to 2010.



## Senior Management

### **Mr. FENG Ming Wei – Deputy General Manager**

**Mr. FENG Ming Wei**, aged 52, 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 world economics from Renmin University of China in July 1998. In 1984, Mr. Feng joined Sinochem Group, in which he had held positions in finance department and Sinochem representative office in Pakistan. He was then promoted as the sales manager in the business department of SC Polymers Inc and the deputy general manager of Sinochem Plastic Company. Mr. Feng joined Sinochem Fertilizer Company Limited in December 2001, and he had held the positions of deputy general manager of Import department, general manager of fertilizer department No.1, general manager of potash fertilizer department 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 46, is the Deputy General Manager of the Company. Mr. Lu graduated from Tsinghua University in 1994 with a master degree of Chemical Engineering. Mr. Lu joined Sinochem Group in 1994 and once served as deputy Chief of the second section in the first importation office in Sinochem Plastics Co., Ltd., as manager of the Department of Plastics and general manager in Sinochem (USA) Inc., and as marketing director in Sinochem Lantian Corporation Limited. 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 42, is the Deputy General Manager of the Company. Mr. Li graduated from Shenyang Institute of Chemical Technology in 1995 majoring in Chemical Engineering with a bachelor's degree of Engineering, and acquired Master's degree in business administration in China Europe International Business School (CEIBS) in 2008. Mr. Li joined Sinochem Group in 1995 and had served as the general manager of the first Investment Management section, Property Management Department in China Chemical Import and Export Corporation, the general manager of Hainan Pacific Ocean Petroleum Industry Company Ltd., the chief of Southwest Office of Sinochem Group, the general manager of Investment Department and the general manager of Engineering Management Department of Sinochem Group. Mr. Li joined the Company in November 2010 and was promoted to the present position since then.

### **Mr. GAO Jian – Chief Financial Officer**

**Mr. GAO Jian**, aged 44, is the Chief Financial Officer of the Company. Mr. Gao graduated from Chongqing Institute of Industrial Management in 1993 with a bachelor's degree. Mr. Gao obtained a Master's degree in Business Administration from Renmin University of China in 2002. He worked in Wuzhou Engineering Design and Research Institute from 1993 to 1999. In 1999, Mr. Gao joined China National Chemicals Import and Export Corporation and had worked in investment department and finance department. During 2002 and 2008, Mr. Gao had also worked in the accounting management department of Sinochem Group, acted as deputy general manager of the finance department in Qinghai Salt Lake Industry Group Co., Ltd. and 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. In June 2008, Mr. Gao joined Sinochem Lantian Co., Ltd. as the chief financial officer. In July 2011, Mr. Gao joined the Company at the present position.

### **Mr. LI Bing – Deputy General Manager**

**Mr. LI Bing**, aged 46, is the Deputy General Manager of the Company. Mr. Li graduated from Tianjin University majoring in Chemical Engineering in 1990 and acquired a master degree of Chemical Engineering from Tsinghua University of China in 2001. From 1990 to 2001, he served in Beijing Yanshan Petrochemical Company. In October 2001, he joined Sinochem Group, in which he had held positions as assistant to the general manager in investment department, vice-president in Sanxing company, president of Xi'an Modern Environmental Chemical Co., Ltd. and vice-president in engineering management department. Mr. Li joined the Company in April 2013 and was promoted to the present position since then.

### **Mr. LV Wen – Deputy General Manager**

**Mr. LV Wen**, aged 40, 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. He acquired his EMBA degree in Tsinghua University in July 2013. From 1998 to 2000, Mr. Lv worked for Yantai Technology Service Centre of Agricultural Means of Production. Mr. Lv joined Sinochem Fertilizer Company Limited in December 2000, and served several positions including regional general manager of northeast region, deputy manager of distribution management department, general manager of phosphate and compound fertilizer department and general manager of nitrogen fertilizer department of Sinochem Fertilizer Company Limited. 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.

### **Mr. LU Gui Sheng – Deputy General Manager**

**Mr. LU Gui Sheng**, aged 56, the Deputy General Manager of the Company. Mr. Lu graduated from Hebei Chemical Engineering College (currently known as Hebei University of Science and Technology) majoring in oil refining in 1982. During 1982 and 1996, Mr. Lu had worked for Luoyang Oil Refinery and Luoyang Petrochemical Complex. During 1996 and 2004, Mr. Lu worked as head of technology department and deputy general engineer in West Pacific Petrochemical Company Ltd., Dalian. Mr. Lu joined Sinochem Group in 2014, and had served as deputy general manager of Sinochem International Industry Co., Ltd. and assistant to general manager of Quanzhou Petrochemical Co., Ltd., respectively. Mr. Lu joined the Company in September 2014 and was promoted to the present position.

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") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

## Compliance with the Corporate Governance Code

The Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules (the "Corporate Governance Code") sets out the principles of good corporate governance, and two levels of recommendations: (a) code provisions; and (b) recommended best practices. It also includes the mandatory disclosure requirements and recommended disclosures in respect of corporate governance for listed companies. For the year ended 31 December 2014 and up to the date of this report, the Company has complied with the applicable code provisions in the Corporate Governance Code, except for the deviations from the code provisions A.1.7 and E.1.2 as described below.

The code provision A.1.7 stipulates that, 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, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent non-executive directors who, and whose close associates, have no material interest in the transaction should be present at that board meeting. During the year and up to the date of this report, the Board approved several connected transactions and continuing 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 E.1.2 provides that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. In the annual general meeting of the Company held on 15 May 2014 (the "2014 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 2014 AGM, the Chairman of the Board authorized and the Directors attended the meeting elected Mr. Wang Hong Jun, an Executive Director and the 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 2014 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2.

## 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. During the year, 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 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, namely Mr. WANG Hong Jun and Mr. Harry YANG; four are Non-executive Directors, namely Mr. LIU De Shu, Mr. YANG Lin, Dr. Stephen Francis DOWDLE and Ms. XIANG Dandan; and three are Independent Non-executive Directors, namely Mr. KO Ming Tung, Edward, Mr. LU Xin and Mr. TSE Hau Yin, Aloysius. The biographical details of the Directors are set out on pages 35 to 38 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, finance 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.

During the year ended 31 December 2014 and up to date of this report, the following changes occurred in the members of the Board:

- (1) On 7 March 2014, Mr. Feng Zhi Bin resigned and Mr. Wang Hong Jun was appointed by the Board as an Executive Director and the Chief Executive Officer of the Company. Subsequent to his appointment, Mr. Wang was re-elected by the shareholders of the Company at the 2014 AGM in accordance with the bye-laws of the Company.
- (2) Dr. Tang Tin Sek, an Independent Non-executive Director of the Company, passed away on 2 December 2014. Since then, the Board comprised eight members, including two Executive Directors, four Non-executive Directors and two Independent Non-executive Directors, with the number of Independent Non-executive Directors falling below the minimum number required under Rule 3.10(1) of the Listing Rules and representing below one-third of the Board as required under Rule 3.10A of the Listing Rules. In order to re-comply with Rule 3.10(1) and Rule 3.10A of the Listing Rules, the Board performed extensive search and approved the appointment Mr. Lu Xin as an Independent Non-executive Director of the Company on 26 February 2015 to fill the casual vacancy that arose from the passing away of Dr. Tang. Mr. Lu was subsequently re-elected by shareholders of the Company at the special general meeting of the Company held on 17 March 2015. Following the appointment of Mr. Lu as an Independent Non-executive Director of the Company on 26 February 2015, the Company has now complied with Rule 3.10(1) and Rule 3.10A of the Listing Rules.

## Independence of the Board

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

The Board has noticed that Mr. Ko Ming Tung, Edward, Independent Non-executive Director of the Company, has served the Board for more than 14 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 a non-executive director's independence. If an independent non-executive director serves more than 9 years, his further appointment should be subject to a separate resolution to be approved by shareholders. In this regard, the re-appointment of Mr. Ko as Independent Non-executive Director of the Company was approved by shareholders in separate resolution at the annual general meeting of the Company held on 14 June 2012. In assessing the independence of Mr. Ko, the Board took into account the fact that Mr. Ko has not engaged in any executive management of the Group, and has demonstrated his ability to provide an independent view to the Company's matters during his terms of office with the Company. The Board believes that Mr. Ko is independent with the Company and has complied with the independence requirements of Rule 3.13 of the Listing Rules.

For the year ended 31 December 2014, Mr. Liu De Shu and Mr. Yang Lin each held directorships or other positions in Sinochem Group (the ultimate controlling shareholder of the Company), its subsidiaries and/or its associated companies; Mr. Harry Yang is a director of US Agri-Chemicals Corporation, a member company of Sinochem Group whose business ceased operation in November 2005.

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

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

## **Division of the responsibilities between the Board of Directors and the management**

The Board of Directors is responsible for reviewing and approving the Company's strategy management, financial management, investment management, asset disposal and other matters, implementing the resolutions passed in the general meetings and supervising 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. Wang Hong Jun, acting as the Chief Executive Officer since 7 March 2014, 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 2014, 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 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 the recent development of Listing Rules and Companies Ordinance in Hong Kong. All Directors have attended the seminar. In addition, the Company has received confirmation from all Directors that they have participated in continuous professional development during the year to develop and refresh their knowledge and skills, which ensured that their contribution to the Board remains informed and relevant.

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

## Board meetings

For the year ended 31 December 2014, the Board held four meetings to discuss and review the Group's strategies and planning, the Company's annual report, interim report, dividend policy, investment projects, connected transactions, continuing connected transactions 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 are as follows:

	<b>Attendance rate</b>
<b>Executive Directors</b>	
Mr. Wang Hong Jun ( <i>Chief Executive Officer</i> ) <sup>(note 1)</sup>	4/4
Mr. Feng Zhi Bin ( <i>former Chief Executive Officer</i> ) <sup>(note 1)</sup>	0/0
Mr. Harry Yang	4/4
<b>Non-executive Directors</b>	
Mr. Liu De Shu ( <i>Chairman</i> )	3/4
Mr. Yang Lin	3/4
Dr. Stephen Francis Dowdle	4/4
Ms. Xiang Dandan	4/4
<b>Independent Non-executive Directors</b>	
Mr. Ko Ming Tung, Edward	4/4
Dr. Tang Tin Sek <sup>(note 2)</sup>	2/3
Mr. Tse Hau Yin, Aloysius	4/4

### Notes:

- Mr. Feng Zhi Bin resigned as an Executive Director and the Chief Executive Officer on 7 March 2014 and Mr. Wang Hong Jun was appointed as an Executive Director and the Chief Executive Officer with effect from the same date in place of Mr. Feng.
- Dr. Tang Tin Sek, an Independent Non-executive Director of the Company, passed away on 2 December 2014. Mr. Lu Xin was appointed as an Independent Non-executive Director of the Company on 26 February 2015 to fill the casual vacancy that arose from Dr. Tang's decease.



## 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 Mr. Lu Xin. Mr. Lu Xin is a new member of the Audit Committee being appointed by the Board on 26 February 2015. Dr. Tang Tin Sek was a member of the Audit Committee during the year and up to his passing away on 2 December 2014. During the period from 2 December 2014 to 25 February 2015, the Audit Committee only comprised two members, failing to comply with Rule 3.21 of the Listing Rules which required that an audit committee must comprise a minimum of three members. Following the appointment of Mr. Lu as a member of the Audit Committee on 26 February 2015, the Company has now complied with Rule 3.21 of the Listing Rules.

The latest terms of reference of the Audit Committee, which have been revised in accordance with the Corporate Governance Code 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) monitoring the relationship with the external auditors including but not limited to reviewing and monitoring 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 2014. The Chief Financial Officer or Deputy General Manager of Finance Department and the external auditors also attended the meetings. The Audit 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 these meetings are as follows:

	<b>Attendance rate</b>
<hr/>	
<b>Independent Non-executive Directors</b>	
Mr. Tse Hau Yin, Aloysius ( <i>Chairman</i> )	4/4
Mr. Ko Ming Tung, Edward	4/4
Dr. Tang Tin Sek ( <i>note</i> )	3/3

*Note:* Dr. Tang Tin Sek, an Independent Non-executive Director and a member of the Audit Committee of the Company, passed away on 2 December 2014. Mr. Lu Xin was appointed as an Independent Non-executive Director and a member of the Audit Committee of the Company on 26 February 2015.

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 auditors, considered and made recommendation to the Board on the re-appointment of external auditors and the corresponding audit fee for the year ended 31 December 2014;
4. discussed the audit plan, scope and responsibility before the commencement of work with the external auditors;
5. 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;
6. discussed the Group's internal audit plan and the related work with the Internal Audit Department;
7. met with the external auditors without the management's participation;
8. reviewed the continuing connected transactions conducted in 2014; and
9. considered the appointment of reporting accountant for the transaction on the acquisition of 15.01% equity interest in Qinghai Salt Lake Industry Group Co., Ltd, and recommended the same for Board's approval.

## 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 comprised five members. The Chairman of the Remuneration Committee is Mr. Ko Ming Tung, Edward, and the other members are Dr. Stephen Francis Dowdle, Mr. Lu Xin, Mr. Tse Hau Yin, Aloysius 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. Mr. Ko Ming Tung, Edward was appointed by the Board as the Chairman of the Remuneration Committee on 26 February 2015 and Mr. Lu Xin is a new member of the Remuneration Committee being appointed by the Board on the same date. Dr. Tang Tin Sek was the Chairman and a member of the Remuneration Committee during the year and up to his passing away on 2 December 2014. During the period from 2 December 2014 to 25 February 2015, the chairman position of the Remuneration Committee became vacant, failing to comply with Rule 3.25 of the Listing Rules. Following the appointment of Mr. Ko as the Chairman of the Remuneration Committee on 26 February 2015, the Company has now complied with Rule 3.25 of the Listing Rules.

The latest terms of reference of the Remuneration Committee, which have been revised in accordance with the Corporate Governance Code 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 2014. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

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

*Note:* Dr. Tang Tin Sek, an Independent Non-executive Director and the Chairman and a member of the Remuneration Committee of the Company, passed away on 2 December 2014. Mr. Lu Xin was appointed as an Independent Non-executive Director and a member of the Remuneration Committee of the Company on 26 February 2015 and Mr. Ko Ming Tung, Edward was appointed by the Board as the Chairman of the Remuneration Committee on the same date.

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 2013;
2. approved the remuneration package (including cash compensation and bonus scheme) of Executive Directors and senior management for the year 2014; and
3. made recommendation to the Board in respect of the compensation proposal for Non-executive Directors and Independent Non-executive Directors for the year 2014.

## **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 to achieve 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 the importance of duties. The higher the importance of duties, the higher the ratio of incentive bonus to total remuneration. This can help the Group to recruit, retain and motivate high-calibre 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/her 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 2014, the Group had about 7,257 full-time employees (including those employed by the Group's subsidiaries), 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 career development of employees. In 2014, the Group provided 2,636 person-times or 15,152 hours of training (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 will further improve the management skills and professional standards of the management of the Group and enhance the overall quality of the employees to cater to the Group's rapid developments, and improve 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 Mr. Lu Xin, 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. Mr. Lu Xin is a new member of the Nomination Committee being appointed by the Board on 26 February 2015. Dr. Tang Tin Sek was a member of the Nomination Committee during the year and up to his passing away on 2 December 2014.

The latest terms of reference of the Nomination Committee, which have been revised in accordance with the Corporate Governance Code, 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 2014. 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 approval. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

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

*Note:* Dr. Tang Tin Sek, an Independent Non-executive Director and a member of the Nomination Committee of the Company, passed away on 2 December 2014. Mr. Lu Xin was appointed as an Independent Non-executive Director and a member of the Nomination Committee of the Company on 26 February 2015.

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

1. reviewed the structure, size and composition of the Board and made suggestions to the Board;
2. reviewed the terms of appointment of Directors and made recommendations to the Board;
3. nominated the Directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting;
4. reviewed the independence of Independent Non-executive Directors and made suggestions to the Board; and
5. reviewed the nomination proposal in respect of the appointment of Mr. Wang Hong Jun as an Executive Director and the Chief Executive Officer of the Company and recommended the same for approval by the Board. The Nomination Committee had considered Mr. Wang's character, educational background, experience and skills, etc. during the assessment process.

## **Board diversity policy of the Company**

The Board adopted a board diversity policy on 27 March 2013 for the purpose of setting out the approach to achieve diversity on the Board in compliance with the Corporate Governance Code. The policy states that, in designing the Board's composition, board diversity has been considered from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All Board appointments will be based on the candidates' talents. Candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives mentioned above. The final decision will be based on merit and contribution that the selected candidates will bring to the Board. During the year, the Nomination Committee had reviewed the Board composition of the Company and considered that the current Board's composition is maintained under the diversified perspective.

## **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. Wang Hong Jun (Executive Director and Chief Executive Officer), who was appointed on 7 March 2014 upon resignation of Mr. Feng Zhi Bin on the same date, and the other members of the Corporate Governance Committee are Mr. Harry Yang (Executive Director), Ms. Cheung Kar Mun, Cindy (Company Secretary) and Ms. Dong Jiao Jiao (Deputy General Manager of Legal Department).

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 2014. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	<b>Attendance rate</b>
<b>Executive Directors</b>	
Mr. Wang Hong Jun ( <i>Chairman</i> ) <i>(note)</i>	0/0
Mr. Feng Zhi Bin ( <i>former Chairman</i> ) <i>(note)</i>	1/1
Mr. Harry Yang	1/1
<b>Management</b>	
Ms. Cheung Kar Mun, Cindy	1/1
Ms. Dong Jiao Jiao	1/1

*Note:* Mr. Feng Zhi Bin resigned as the Chairman of Corporate Governance Committee on 7 March 2014 and Mr. Wang Hong Jun was appointed as the Chairman of Corporate Governance Committee with effect from the same date in place of Mr. Feng.

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

1. formulated the corporate governance plan of the Company for 2014;
2. reviewed the Company's corporate governance policies and practices and monitor the Company's compliance with the Corporate Governance Code and the Listing Rules; and
3. reviewed and approved the disclosures in relation to the corporate governance standards of the Company in relevant reports.

## Communication with Shareholders

### Shareholders communication policy

The Company has adopted the shareholders communication policy (the "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 the 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 inform the shareholders and the investment community the channels to make enquiries in respect of the Company. To the extent that 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. 2014 AGM of the Company was held on 15 May 2014, in which Mr. Wang Hong Jun, an Executive Director and the 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, Nomination and Corporate Governance Committees of the Company attended the 2014 AGM and were available to answer relevant questions. The attendance rates of each of the Directors at the 2014 AGM are as follows:

	<b>Attendance rate</b>
<b>Executive Directors</b>	
Mr. Wang Hong Jun ( <i>Chief Executive Officer</i> ) <sup>(note 1)</sup>	1/1
Mr. Feng Zhi Bin ( <i>former Chief Executive Officer</i> ) <sup>(note 1)</sup>	0/0
Mr. Harry Yang	1/1
<b>Non-executive Directors</b>	
Mr. Liu De Shu ( <i>Chairman</i> )	0/1
Mr. Yang Lin	0/1
Dr. Stephen Francis Dowdle	0/1
Ms. Xiang Dandan	0/1
<b>Independent Non-executive Directors</b>	
Mr. Ko Ming Tung, Edward	1/1
Dr. Tang Tin Sek <sup>(note 2)</sup>	1/1
Mr. Tse Hau Yin, Aloysius	1/1

*Notes:*

1. Mr. Wang Hong Jun was appointed as an Executive Director and the Chief Executive Officer on 7 March 2014 upon the resignation of Mr. Feng Zhi Bin on the same date.
2. Dr. Tang Tin Sek, an Independent Non-executive Director of the Company, passed away on 2 December 2014.

During the year, two special general meetings of the Company were held on 24 January 2014 and 15 May 2014 for approving certain continuing connected transactions of the Company by the then independent shareholders. The attendance rates of each of the Directors at those special general meetings are as follows:

	<b>Attendance rate</b>
<b>Executive Directors</b>	
Mr. Wang Hong Jun ( <i>Chief Executive Officer</i> ) <sup>(note 1)</sup>	1/1
Mr. Feng Zhi Bin ( <i>former Chief Executive Officer</i> ) <sup>(note 1)</sup>	1/1
Mr. Harry Yang	2/2
<b>Non-executive Directors</b>	
Mr. Liu De Shu ( <i>Chairman</i> )	0/2
Mr. Yang Lin	0/2
Dr. Stephen Francis Dowdle	0/2
Ms. Xiang Dandan	0/2
<b>Independent Non-executive Directors</b>	
Mr. Ko Ming Tung, Edward	2/2
Dr. Tang Tin Sek <sup>(note 2)</sup>	2/2
Mr. Tse Hau Yin, Aloysius	2/2

**Notes:**

- Mr. Wang Hong Jun was appointed as an Executive Director and the Chief Executive Officer on 7 March 2014 upon the resignation of Mr. Feng Zhi Bin on the same date.
- Dr. Tang Tin Sek, an Independent Non-executive Director of the Company, passed away on 2 December 2014.

## Shareholders' rights

Shareholders, at the date of deposit of the requisition, holding 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 to submit a signed written requisition, specifying the purpose (including any proposals), to the Board or the Company Secretary to require a special general meeting, 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 special general meeting, 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 special general meeting, but any special general meeting so convened shall not be held after the expiration of three months from twenty-one days of the deposit.

In addition, shareholders may 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.

### Constitutional documents

The constitutional documents of the Company, including the memorandum of association and bye-laws of the Company, are available for review by Shareholders from the Company's website. During the year, there is no change in these constitutional documents.

### 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 re-appointment of KPMG as the auditor of the Group for the year ended 31 December 2014, 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 2014 were as follows:

Nature of services	For the year ended 31 December	
	2014 RMB'000	2013 RMB'000
Audit service (including audit of financial statements and other audit related projects)	4,250	4,389
Tax related service	8	16
Total	4,258	4,405

### Financial Management

In 2014, in terms of performance evaluation, the Group further deepened comprehensive budget management and extended to subordinate units, strengthened supervision and control on the whole operation process, added a new three-layer operation monitoring and control system, focused on branches with abnormal performance, optimized the performance evaluation system, maintained the high performance oriented strategy, emphasized on investment returns, ensured that resources flowed towards high-quality asset and fully exerted the budget monitoring and control and performance-oriented role of performance evaluation.

In 2014, the Group grasped the opportunity in the changing trend of foreign exchange and interest rate on both domestic and international markets, brought into full play the advantage of integrated fund management, controlled the fluctuation risk of interest rate, made full use of the low-cost fund, increased the capital turnover rate, enhanced the allocation and utilization of the Group's internal capital and reduced the comprehensive capital cost; maintained close cooperation with external banks and continued to hold sufficient bank facilities; cooperated with financial institutions including Postal Savings Bank of China, China Minsheng Bank and China Guangfa Bank, promoted financing services for small and medium-sized customers and provided financial added-value service to customers.

In 2014, the Group continued to strengthen the integrated management of financial personnel and improved the professionalism and management ability of the financial personnel through training, job rotation and introduction of experts; promoted emotional exchanges, strengthened the humanistic care, effectively improved group bonding and enhanced executive efficiency through carrying out recreational activities; identified prospective, key and outstanding young talents at various levels and provided a foundation for the personnel allocation and reserve within the system, provided tailored training for those talents through systematic review so as to constantly improve the quality of the financial personnel and build a strong professional financial management team.

In 2014, the Group made more efforts in the assessment of cost management of production enterprises, focused on the implementation of cost reduction and efficiency improvement, assessed, followed up and analyzed the performance of the production enterprises on a monthly basis and achieved some results.

## 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 asset safety. During the year, the Group conducted an annual review and appraisal of the whole 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 People's Republic of China, while complying with the Listing Rules and the Internal Control Framework of US Committee of Sponsoring Organizations (COSO). The review assessed and provided feedback on all significant aspects of control, including financial control, operational control, compliance control as well as risk management, so as to guarantee the effective operation of the internal control system by taking into consideration the respective characteristics of the headquarter and branches of the Company.

### Internal control and risk management efforts

For years, the Group has been committed to perfect the system of internal control and risk management and constantly improve the system construction and practical effects of internal control and risk management: on the basis of continuous revision on the strategies, planning and budget goals during the year, the Group streamlined the work objectives, implementing measures, work arrangements and personnel allocation and identified the internal control and risk management and defined the development direction every year.

In 2014, the Group combined the building of internal control system, results of previous inspections, findings of auditing, feedbacks of internal control assessments from State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and key concerns of the Audit Committee. Through organized and guided the relevant departments of the headquarters, distribution network, production subsidiaries and overseas branches of the Group to carry out self-assessment, the Group conducted comprehensive review to the effectiveness of design and implementation of monitoring elements including the control environment, risk assessment, monitoring activities, information and communication as well as internal supervision, and also summarized the related contents including the assessment process of internal control, identification of defects and improvement measures of internal control as well as the conclusion on the effectiveness of internal control. The Group further guaranteed the quality of internal control assessment through adopting the approach that combined training and examination, and perfected the internal control system of the Company through forming a sophisticated mechanism of internal control assessment and improvement.

1. Control environment: After years of development and improvement, the Group has established a healthy monitoring environment, a regulated governance structure, a clear development strategy, an enterprising and sound corporate culture and a human resources management mechanism. The Group further performed social responsibilities proactively in order to lay a solid foundation for the establishment of a well-organized internal control and risk management system.
2. Risk assessment: The Group analyzed the changes in the macro environment both at home and abroad, industry environment and internal environment of the Group, comprehensively assessed each category of risk the Group might face, confirmed significant risk points and responsibilities of risk management and constantly improved the building of the risk management system.
3. Monitoring activities: In response to the corporate internal environment and risk assessment results, the Group developed relatively well-established control measures with operation and management characteristics of the Group. The Group improved the effectiveness of internal control through constantly optimizing the processes and perfecting the mechanism; and improved the efficiency of internal control through strengthening supervision and examination.
4. Information and communication: The Group have established an open information channels with good information flow in and out as well up and down, an information transmission mechanism, an anti embezzlement mechanism and a complaint and investigation mechanism so that information can be effectively communicated, reasonably disclosed and safely utilized within and outside of the Group.
5. Internal supervision: Through years' of development, the Group, according to relevant requirements in the Listing Rules of the Stock Exchange and Internal Control Framework of COSO, formulated a set of relatively sophisticated internal control system, built a multi-level internal control system, and established the working methods, procedures and requirements meeting with standards of international internal audit, which effectively secured the Company's business objectives and strategic transformation.

Through inspection and assessment on internal control system, the Group believed, in the year of 2014, to have had a relatively healthy internal control environment. The Group could also systematically identified, assessed and coped with risks it faced, by possessing a sound and sophisticated internal system and normative business processes and strong ability of information transmission and communication as well as execution 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 continue to comply with the Listing Rules of the Stock Exchange and base on the Basic Norms of Internal Control and its guidelines. The Group will focus on constructing a strong multi-level supervision system, improve reporting and bulletin as well as the early warning mechanism, rectification and tracking mechanism and outcome application system, further enhance the effectiveness of design and execution of internal control, constantly promote the quality and effectiveness of the internal control and ensure the sound and smooth implementation of the Group's strategic objectives.

## Investor Relation and Information Disclosure

The Group attaches great importance to investor relations' work, which is directly in charge by the senior management of the Company. Under the supervision and requirements of the Listing Rules of the Stock Exchange and the "Rules Governing the Management of Information Disclosure" of the Company, the Group maintained close communication with the capital market through multiple channels.

In 2014, although China adopted more liberal policies on fertilizer export and the export volume was significantly increased, the overall fertilizer market was still sluggish with a serious surplus of production capacity and increasing disorder competition. Confronted with a stagnant industrial environment, the Company actively carried out various work related to investor relations and information disclosure, conducted sufficient communications with the capital market on industrial market conditions, business operation and development strategies of the Company, and achieved good results.

In 2014, the work related to investor relations of the Company mainly included:

1. In March 2014, the Company announced its 2013 annual results and held press conference and analysts' meeting.
2. In August 2014, the Company announced its 2014 interim results and held press conference and analysts' meeting.
3. In August 2014, the Company conducted non-deal road-show in the United States of America, conducting interviews with local large institutional investors.

Apart from the above-mentioned results announcement conferences and non-deal road-show, the Group also participated in several investor conferences organized by investment banks and also adopted multiple ways in daily work including on-site receptions, conference calls, and emails to keep effective communication and connection with investors and analysts. For the twelve months ended 31 December 2014, the Company had conducted over 400 discussions or communications with the capital market in different ways.

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

## **Health, Safety and Environmental Protection**

In 2014, the Group achieved the planned goals of no serious and major production accident, no level-IV and above environmental event, no accident of occupational disease hazards, etc.. The Group kept an overall stable situation in health, safety and environmental protection (HSE).

During the year of 2014, the Group stuck to the philosophy of "putting people first" and the principle of "safeguarding safety with iron fist" and constantly improved HSE management system; constantly promoted safety improvement activities and enhanced the safety knowledge, awareness and skills of the personnel through leadership, line responsibility, territorial management, safety sharing, behaviour safety observation and communication, safety awareness; fully explored internal HSE experts, set up an HSE expert database and solved actual HSE problems faced with the help from the expert team; gradually perfected hazard screening and control, implemented confirmation system of the department head in hazard management, built a patrol inspection system, linked hazard rectification with the performance appraisal, carried out cumulative assessment on the relevant responsible person, strengthened the implementation until the hazard was rectified; applied the Hazard and Operability Analysis (HAZOP) on key production equipment and constantly upgraded the intrinsic safety of the equipment through technical renovation or new installation; strengthened occupational health management, supervised and guided the improvement of production facility of the enterprises, reduced or avoided occupational hazardous factors and ensured the mental and physical health of the personnel; continued to increase the input of environmental-friendly equipment and facilities, carried out source control and responsibility assessment, actively built an essentially safe and environmental-friendly enterprise and fulfilled its social responsibility while all the emissions indicators met the standard and achieved an obvious effect in emission reduction.

# 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 2014.

## 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, exploration and exploitation of phosphate mine, and production of monocalcium/monocalcium 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 profit or loss and other comprehensive income on page 85 to 86 of the annual report.

The Board recommended the payment of a final dividend of HK\$0.0104 (equivalent to RMB0.0082) per share for the year ended 31 December 2014 (2013: Nil) to the shareholders, estimated to be HK\$73,054,000 (equivalent to approximately RMB57,633,000) 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 176 of the annual report.

## Major Customers and Suppliers

The aggregate turnover from the Group's five largest customers were less than 30% of the Group's total turnover for the year 2014. The aggregate purchase from the Group's five largest suppliers represented around 23.8% of the Group's total purchases for the year 2014, with the largest supplier contributing to 8.6% of the Group's total purchases for the year. A substantial shareholder of the Company, Potash Corporation of Saskatchewan Inc., holds one-third equity interests in the largest supplier of the Group.

Save for the above, none of the Directors, their close associates or any shareholders (which to the knowledge of the Directors owned more than 5% equity interests 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 14 to the consolidated financial statements.

## Share Capital

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

## Reserves

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 89 to 90 of the annual report.

## Distributable Reserves of the Company

As at 31 December 2014, 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\$99,354,000 (equivalent to approximately RMB78,251,000) (2013: HK\$26,115,000, equivalent to approximately RMB20,532,000).

## Donations

During the year ended 31 December 2014, the Group had made approximately RMB810,000 charitable donations in cash and donations of fertilizers with value of approximately RMB280,000 mainly to those areas affected by natural disasters.

## Directors

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

### **Executive Directors**

Mr. Wang Hong Jun (*Chief Executive Officer*)  
(appointed on 7 March 2014)

Mr. Feng Zhi Bin (*Former Chief Executive Officer*)  
(resigned on 7 March 2014)

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 (passed away on 2 December 2014)

Mr. Lu Xin (appointed on 26 February 2015)

Mr. Tse Hau Yin, Aloysius

In accordance with the bye-laws of the Company, Mr. Liu De Shu, Dr. Stephen Francis Dowdle and Mr. Ko Ming Tung, Edward 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 35 to 40 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:

1. As resolved by the Remuneration Committee on 19 March 2015, Mr. Wang Hong Jun, 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 RMB1,734,537 and RMB1,482,000, respectively, determined with reference to the operating results of the Group and their respective individual performance in 2014.
2. On 26 February 2014, Mr. Yang Lin, Non-Executive Director of the Company, was appointed as a non-executive director and a member of the audit committee of Franshion Properties (China) Limited, a subsidiary of Sinochem Group and a company listed on the main board of the Stock Exchange.
3. Mr. Ko Ming Tung, Edward, the Independent Non-executive Director of the Company, was appointed as the Chairman of the Remuneration Committee of the Company with effect from 26 February 2015. His annual remuneration as the Chairman of the Remuneration Committee is HK\$82,500, which was approved by the Board and was determined with reference to his duties and responsibilities.

## Directors' Service Contracts

On 15 May 2014, Mr. Wang Hong Jun, Executive Director and Chief Executive Officer of the Company, entered into a service contract with the Company for a term of three years. On 15 May 2014, Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, renewed his service contract with the Company for a term of three years. Pursuant to the terms stipulated in the service contracts of Mr. Wang and Mr. Yang, 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. Wang Hong Jun or Mr. Harry Yang prior to its expiry, Mr. Wang or Mr. 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.

The Company had 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 as set out in the Corporate Governance Code.

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 2014, 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 2014, 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 "Share Option Scheme") and the termination of the then existing share option scheme adopted on 26 August 2002. For the year ended 31 December 2014, no share option under the Share Option Scheme was granted. As at 31 December 2014, no share option is outstanding.

Save as disclosed above, as at 31 December 2014, 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 2014, 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 <sup>(Note 1)</sup>	3,698,660,874	52.65%
Sinochem Corporation <sup>(Note 1)</sup>	3,698,660,874	52.65%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") <sup>(Note 2)</sup>	3,698,660,874	52.65%
Potash Corporation of Saskatchewan Inc. ("PotashCorp") <sup>(Note 3)</sup>	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 2014.

## 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 2014, 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 2014, Dr. Stephen Francis Dowdle, Non-Executive Director of the Company, is 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.

For the year ended 31 December 2014, the Group had conducted the following one-off connected transaction and 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 connected transactions and continuing connected transactions complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. When conducting the following continuing connected transactions during the year, the Company has followed the pricing policies and guidelines formulated at the time when such transactions were entered into.

### I. One-off Connected Transactions

For the year ended 31 December 2014, the Group conducted the following one-off connected transaction, which are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

#### 1. *The Acquisition of Equity Interest in Qinghai Salt Lake by Sinochem Fertilizer*

On 9 December 2014, the Board resolved to exercise an option in relation to the equity interest in Qinghai Salt Lake. In this connection, Sinochem Fertilizer proposed to enter into the Share Transfer Agreement with Sinochem Corporation, pursuant to which Sinochem Fertilizer shall acquire, and Sinochem Corporation shall sell 238,791,954 issued shares of Qinghai Salt Lake, representing 15.01% of its total issued share capital, at a total consideration of RMB3,890,101,118.75.

As at the date of this report, Sinochem Fertilizer owned 142,260,369 shares of Qinghai Salt Lake, representing 8.94% of its total issued share capital. Upon completion of the Acquisition, Sinochem Fertilizer would hold 381,052,323 shares of Qinghai Salt Lake, representing 23.95% of the total issued share capital and would become the second largest shareholder of Qinghai Salt Lake.

Sinochem Corporation is the indirect controlling shareholder of the Company, and is therefore a connected person of the Company. As such, the Acquisition constitutes a connected transaction of the Company under the Listing Rules. Given that one or more of the applicable percentage ratios in respect of the Acquisition are more than 5%, the Acquisition is subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Furthermore, as one or more of the applicable percentage ratios in respect of the Acquisition are more than 25% but less than 100%, the Acquisition also constitutes a major transaction of the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcements dated 13 October 2014 and 9 December 2014, and the circular dated 27 January 2015 published by the Company. The aforesaid connected transaction has been approved by the independent shareholders of the Company at the special general meeting of the Company held on 12 February 2015.

## **II. Continuing Connected Transactions**

For the year ended 31 December 2014, the Group's continuing connected transactions are listed below, which are subject to reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

### **A. Continuing Connected Transactions Subject to Independent Shareholders' Approval Requirement**

#### **1. Sulphur and Other Fertilizer Raw Materials Import Framework Agreement among Sinochem Fertilizer, Dohigh Trading and Sinochem Group**

##### *1) Sulphur Import Framework Agreement*

On 5 December 2013, Sinochem Fertilizer and Dohigh Trading, two indirect wholly-owned subsidiaries of the Company, entered into the sulphur and other fertilizer raw materials import framework agreement ("Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group continued to import sulphur and other fertilizer raw materials sourced by Dohigh Trading and sell them all to Sinochem Fertilizer during the period from 1 January 2014 to 31 December 2014 (both days inclusive). Pursuant to the Sulphur Import Framework Agreement, Sinochem Group would import sulphur and other fertilizer raw materials sourced by Dohigh Trading. Except for any sulphur and other fertilizer raw materials imported by Sinochem Group on behalf of its other customers, Sinochem Group would sell all the sulphur and other fertilizer raw materials it imports to Sinochem Fertilizer.

Under the Sulphur Import Framework Agreement, unless otherwise determined by the PRC Government, the pricing principles for the sale and purchase of sulphur and other fertilizer raw materials between the parties are as follows: (i) the price to be paid by Sinochem Group to Dohigh Trading for sulphur and other fertilizer raw materials sold by Dohigh Trading to Sinochem Group shall be determined in accordance with the prevailing international market price; and (ii) the price to be paid by Sinochem Fertilizer to Sinochem Group for sulphur and other fertilizer raw materials sold by Sinochem Group to Sinochem Fertilizer shall be determined in accordance with the domestic wholesale price at port.

According to the announcement of the Company dated 3 April 2014, due to the significant increase in the price and demand of sulphur, the Company revised the annual caps for 2014 in respect of the continuing connected transactions between Dohigh Trading and Sinochem Group and the continuing connected transactions between Sinochem Fertilizer and Sinochem Group from US\$55,000,000 to US\$110,000,000 and from RMB336,000,000 to RMB675,000,000, respectively.

In 2014, the cumulative transaction amounts under the Sulphur Import Framework Agreement in respect of the purchase of sulphur products by Sinochem Group from Dohigh Trading and the sale of sulphur products by Sinochem Group to Sinochem Fertilizer, exceeded the above annual caps. For the reasons of exceeding the annual caps and the remedial measures taken by the Company, please refer to the announcement dated 12 December 2014 and the circular dated 27 January 2015 published by the Company.

2) *New Sulphur Import Framework Agreement*

On 12 December 2014, Dohigh Trading and Sinochem Fertilizer entered into the new sulphur and other fertilizer raw materials import framework agreement (“New Sulphur Import Framework Agreement”) with Sinochem Group, pursuant to which Sinochem Group will continue to import sulphur and other fertilizer raw materials sourced by Dohigh Trading and sell them to Sinochem Fertilizer during the period from 1 January 2015 to 31 December 2015 (both days inclusive). The terms of the New Sulphur Import Framework Agreement are substantially the same as those of the Sulphur Import Framework Agreement.

Under the New Sulphur Import Framework Agreement, the annual cap for 2015 in respect of the transactions between Dohigh Trading and Sinochem Group is US\$120,000,000; the annual cap for 2015 in respect of transactions between Sinochem Group and Sinochem Fertilizer is RMB900,000,000.

Each of Sinochem Fertilizer and Dohigh Trading is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Sulphur Import Framework Agreement and the New Sulphur Import Framework Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the annual caps under the Sulphur Import Framework Agreement and the New Sulphur Import Framework Agreement are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 5 December 2013, 3 April 2014 and 12 December 2014, and the circulars dated 25 April 2014 and 27 January 2015 published by the Company. The continuing connected transactions under the Sulphur Import Framework Agreement and the New Sulphur Import Framework Agreement have been approved by the independent shareholders of the Company at the special general meetings of the Company held on 15 May 2014 and 12 February 2015, respectively.



**2. *The MOU between Sinochem Macao and Canpotex***

On 13 December 2013, Sinochem Macao and Canpotex International Pte. Limited (on behalf of Canpotex) entered into the MOU. The MOU had a term of one year from 1 January 2014 to 31 December 2014 (both days inclusive). Under the MOU, Canpotex shall supply, and Sinochem Macao shall purchase a minimum of 1,000,000 tonnes of Canadian potash or 33.33% of seaborne potash imports to the PRC, whichever is greater.

The annual cap for 2014 in respect of the transactions under the MOU was US\$350,000,000.

Potash Corporation is a substantial shareholder of the Company. Canpotex, owned as to 33.33% by Potash Corporation, is an associate of Potash Corporation, and is therefore a connected person of the Company. As such, the transactions under the MOU constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the relevant applicable percentage ratios in respect of the annual caps of the continuing connected transactions under the MOU are more than 5%, such transactions are subject to the reporting, announcement, annual review and independent shareholders' approval requirements under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 13 December 2013, and the circular dated 8 January 2014 published by the Company. The continuing connected transactions under the MOU have been approved by the independent shareholders of the Company at the special general meeting held on 24 January 2014.

**3. *Fertilizer Sales Co-operation Framework Agreement between Sinochem Fertilizer, Sinochem Macao and Sinochem Group***

1) *Fertilizer Sales Co-operation Framework Agreement*

On 13 December 2013, Sinochem Macao and Sinochem Fertilizer, two indirect wholly-owned subsidiaries of the Company, entered into the fertilizer sales co-operation framework agreement ("Fertilizer Sales Co-operation Framework Agreement") with Sinochem Group. The Fertilizer Sales Co-operation Framework Agreement had a term of one year from 1 January 2014 to 31 December 2014. Pursuant to the Fertilizer Sales Co-operation Framework Agreement, fertilizer products sourced from overseas by Sinochem Macao for Sinochem Fertilizer would first be sold to Sinochem Group. Sinochem Group, as an approved importer of fertilizer products in the PRC, would import the products sourced by Sinochem Macao and sell all of such to Sinochem Fertilizer. Sinochem Group would also import a small amount of fertilizer products direct from overseas from time to time.

Under the Fertilizer Sales Co-operation Framework Agreement, unless otherwise determined by the PRC Government, 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 determined 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 determined in accordance with the purchase 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 directly from overseas suppliers is determined in accordance with the prevailing domestic wholesale price at port.

Pursuant to the Fertilizer Sales Co-operation Framework Agreement, the annual cap for 2014 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group was US\$1,140,000,000; the annual cap for 2014 in respect of the continuing connected transaction between Sinochem Fertilizer and Sinochem Group was RMB7,340,000,000.

## 2) *New Fertilizer Sales Co-operation Framework Agreement*

On 9 December 2014, Sinochem Macao and Sinochem Fertilizer entered into the fertilizer sales co-operation framework agreement ("New Fertilizer Sales Co-operation Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would continue to import fertilizer products sourced by Sinochem Macao and sell them to Sinochem Fertilizer during the period from 1 January 2015 to 31 December 2015 (both days inclusive). The terms of the New Fertilizer Sales Co-operation Framework Agreement are substantially the same as those of the Fertilizer Sales Co-operation Framework Agreement.

Pursuant to the New Fertilizer Sales Co-operation Framework Agreement, the annual cap for 2015 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group is RMB1,265,000,000; the annual cap for 2015 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group is RMB7,796,000,000.

Sinochem Fertilizer and Sinochem Macao are indirect wholly-owned subsidiaries of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. The transactions under the Fertilizer Sales Co-operation Framework Agreement and the New Fertilizer Sales Co-operation Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the relevant applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Fertilizer Sales Co-operation Framework Agreement and the New Fertilizer Sales Co-operation Framework Agreement are more than 5%, the transactions are subject to the reporting, announcement, annual review requirements and independent shareholders' approval under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 13 December 2013 and 9 December 2014, and the circulars dated 8 January 2014 and 27 January 2015 published by the Company. The continuing connected transactions under the Fertilizer Sales Co-operation Framework Agreement and the New Fertilizer Sales Co-operation Framework Agreement have been approved by the independent shareholders of the Company at the special general meetings of the Company held on 24 January 2014 and 12 February 2015, respectively.

**B. Continuing Connected Transactions Exempted From Independent Shareholders' Approval Requirement But Subject to Reporting, Announcement and Annual Review Requirements**

**4. UK Service Agreement between Sinochem Macao and Sinochem UK**

On 5 December 2013, Sinochem Macao, an indirect wholly-owned subsidiary of the Company, entered into the provision of services agreement ("UK Service Agreement") with Sinochem UK, pursuant to which Sinochem UK would provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (mainly includes salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs) during the period from 1 January 2014 to 31 December 2016 (both days inclusive). Pursuant to the UK Service Agreement, the fee payable by Sinochem Macao shall be US\$8 per tonne of products purchased by Sinochem Macao from its suppliers and in respect of which Sinochem UK has provided services.

As disclosed in the announcement of the Company dated 9 December 2014, due to the fluctuation of foreign exchange rates and the increase in labour costs arising from inflation since 2014, the Company revised the annual cap for each of the three years from 2014 to 2016 in respect of the continuing connected transactions under the UK Service Agreement from US\$2,000,000 to US\$2,300,000.

Sinochem Macao is an indirect wholly-owned subsidiary of the Company. Sinochem UK is an indirect wholly-owned subsidiary of Sinochem Group, the ultimate controlling shareholder of the Company, is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions under the UK Service Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the annual caps of the continuing connected transactions under the UK Service Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 5 December 2013 and 9 December 2014 published by the Company.

### **5. Financial Service Framework Agreement between the Company and Sinochem Finance**

On 5 December 2013, the Company and Sinochem Finance entered into the financial services framework agreement for a term commencing on 1 January 2014 and expiring on 31 December 2015 (both days inclusive). Pursuant to the Financial Service Framework Agreement, the Group would, from time to time, utilize the financial services available from Sinochem Finance as it deems necessary, which include Deposit Services, provision of Loans Services (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 ("CBRC"), and pay the relevant interests and service fees to or receive deposit interests from Sinochem Finance. The interests for Deposit Services, and the fees charged for the provision of guarantees, internet banking services and other financial services approved by the 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 interests payable for the provision of Loans Services, the service fee payable for the arrangement of entrustment loans, commercial bills of exchange services and settlement services will not exceed the service fee and relevant interest payable on such services under the same terms obtainable from independent commercial banks. No service fee is payable for buyer financing services.

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

- (i) In respect of the Deposit Services, the Company estimates that the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance for each of the two years ending 31 December 2015 will be RMB360,000,000.
- (ii) In respect of the Other Financial Services provided by Sinochem Finance, the Company estimated that the annual cap for each of the two years ending 31 December 2015 will be RMB10,000,000.

Sinochem Finance is a wholly-owned subsidiary of Sinochem Corporation, the indirect controlling shareholder of the Company. Sinochem Finance 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 Financial Services Framework Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios (other than the profits ratio) in respect of the maximum daily balance of deposits (including accrued interest) of the Deposit Services and the annual cap of the Other Financial Services (save for the provision of loans to the Group) under the Financial Services Framework Agreement are more than 0.1% but less than 5%, the Deposit Services, the Other Financial Services (save for the provision of loans to the Group) and their respective proposed transaction caps are subject to the reporting, announcement and annual review but are exempt from the independent shareholders' approval requirements under the Listing Rules.

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 then in force (i.e. the existing Rule 14A.90), 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 5 December 2013 published by the Company.

## **6. *Agrichemical Purchase and Sale Framework Agreement between Sinochem Fertilizer and Sinochem Group***

On 12 June 2014, Sinochem Fertilizer and Sinochem Group (for and on behalf of its associates) entered into the agrichemical purchase and sale framework agreement ("Agrichemical Framework Agreement"), pursuant to which the associates of Sinochem Group sold to and/or purchased from Sinochem Fertilizer certain agrichemical and other related products for a term up to 31 December 2014.

Pursuant to the Agrichemical Framework Agreement, prices of agrichemical and other related products would be determined with reference to fair market prices of the products within the PRC at the time when Sinochem Fertilizer or the relevant associate of Sinochem Group submits its purchase plan for the relevant products.

As disclosed in the announcements of the Company dated 22 September 2014, the Company revised the annual cap for 2014 in respect of the continuing connected transaction between Sinochem Fertilizer and Sinochem Group from RMB17,330,000 to RMB25,000,000.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Agrichemical Framework Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Agrichemical Framework Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 12 June 2014 and 22 September 2014.

### **7. Sulphur Purchase Framework Agreement between Dohigh Trading and Sinochem Group**

On 22 September 2014, Dohigh Trading and Sinochem Group entered into the Sulphur Purchase Framework Agreement, pursuant to which Sinochem Group will purchase sulphur and other fertilizer raw materials from overseas markets through bidding process and sell them to Dohigh Trading during the period from 22 September 2014 to 31 December 2015 (both days inclusive). Sinochem Group will sell all sulphur and other fertilizer raw materials sourced from the overseas markets to Dohigh Trading except for those imported by Sinochem Group on behalf of other third parties. It is estimated that during the term of the Sulphur Purchase Framework Agreement, the purchase volume of sulphur and other fertilizer raw materials by Dohigh Trading from Sinochem Group will not exceed 200,000 tonnes. Under the Sulphur Purchase Framework Agreement, unless otherwise determined by the PRC government, the price for the sale and purchase of sulphur and other fertilizer raw materials shall be determined by the parties through negotiation with reference to the prevailing international market price.

Under the Sulphur Purchase Framework Agreement, the annual caps for each of the two years ending 31 December 2015 in respect of the continuing connected transactions between Dohigh Trading and Sinochem Group are US\$7,000,000 and US\$20,000,000, respectively.

Dohigh Trading is an indirect wholly-owned subsidiary of the Company. Sinochem Group is the ultimate controlling shareholder of the Company, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Sulphur Purchase Framework Agreement constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the annual caps for the continuing connected transactions are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 22 September 2014 published by the Company.

**8. Sales Contract of Solid Industrial Sulphur between Sinochem Fertilizer and Quanzhou Petrochemical**

On 22 September 2014, Sinochem Fertilizer and Quanzhou Petrochemical entered into the sales contract of solid industrial sulphur ("Sales Contract") for a term from 22 September 2014 to 31 August 2015. Pursuant to the Sales Contract, Sinochem Fertilizer will purchase from Quanzhou Petrochemical solid industrial sulphur products during the above term. It is estimated that the purchase volume of Sinochem Fertilizer during the term of the Sales Contract will be approximately 30% of the annual production volume of Quanzhou Petrochemical and will not exceed 100,000 tonnes per annum. In particular, the monthly and daily purchase volumes of Sinochem Fertilizer are expected to be 30% (+/-10%) of the monthly and daily production volumes of Quanzhou Petrochemical, respectively. The price of the solid industrial sulphur products to be supplied by Quanzhou Petrochemical to Sinochem Fertilizer would be the factory price of the products. The factory price would be determined with reference to the prevailing wholesale port price of the products and taking into account various factors including logistics and inventory.

Under the Sales Contract, the annual caps for 2014 and the eight months ending 31 August 2015 in respect of the continuing connected transactions between Sinochem Fertilizer and Quanzhou Petrochemical are RMB50,000,000 and RMB100,000,000, respectively.

Quanzhou Petrochemical is an indirect wholly-owned subsidiary of Sinochem Group, which is the ultimate controlling shareholder of the Company. As such, Quanzhou Petrochemical is a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Sales Contract constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Sales Contract are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 22 September 2014 published by the Company.

**9. The MOU of MCP and MDCP Products between Sinochem Yunlong and PCS Sales**

On 5 December 2014, Sinochem Yunlong, an indirect wholly-owned subsidiary of the Company, entered into the MOU with PCS Sales, pursuant to which Sinochem Yunlong will supply MCP and MDCP products to PCS Sales during the period from 1 January 2015 to 31 December 2017 (both days inclusive). Price of MCP and MDCP products would be mutually agreed by the parties with reference to the international market price on a quarterly basis prior to the beginning of each quarter and no later than 15 days prior to each shipment of the products.

Pursuant to the MOU, the annual caps for the three years from 2015 to 2017 in respect of the continuing connected transactions between Sinochem Yunlong and PCS Sales are US\$9,000,000, US\$9,900,000 and US\$10,900,000, respectively.

Sinochem Yunlong is an indirect wholly-owned subsidiary of the Company, Potash Corporation is a substantial shareholder of the Company, and PCS Sales is a wholly-owned subsidiary of Potash Corporation. PCS Sales is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions under the MOU between Sinochem Yunlong and PCS Sales constitute continuing connected transactions of the Company. Given that the relevant applicable percentage ratios in respect of the annual caps under the MOU are more than 0.1% but less than 5%, such transactions are subjected to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval under the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 9 December 2014 published by the Company.

**III. The annual caps approved for and the actual transacted amount of continuing connected transactions of the Group for the year ended 31 December 2014 are set out below:**

Name of Transactions	Currency	For the year ended 31 December 2014	
		Actual Caps ( <i>'000</i> )	Transacted Amount ( <i>'000</i> )

***Continuing Connected Transactions Subject to Independent Shareholders' Approval Requirement***

1.	Sulphur and Other Fertilizer Raw Materials Import Framework Agreement			
1)	Dohigh Trading supplies sulphur and other fertilizer raw materials to Sinochem Group	USD	110,000	131,522
2)	Sinochem Fertilizer purchases sulphur and other fertilizer raw materials from Sinochem Group	RMB	675,000	751,282
2.	Sinochem Macao purchases Canadian potash from Canpotex	USD	350,000	346,413
3.	Fertilizer Sales Co-operation Framework Agreement			
1)	Sinochem Macao supplies fertilizer products to Sinochem Group	USD	1,140,000	997,839
2)	Sinochem Fertilizer purchases fertilizer products from Sinochem Group	RMB	7,340,000	7,010,827



Name of Transactions	Currency	For the year ended 31 December 2014	
		Actual Caps ( <i>'000</i> )	Transacted Amount ( <i>'000</i> )
<b><i>Continuing Connected Transactions Exempted from Independent Shareholders' Approval Requirement but Subject to Reporting, Announcement and Annual Review Requirements</i></b>			
4. Sinochem UK provides services to Sinochem Macao	USD	2,300	2,300
5. Financial Service Framework Agreement			
1) Maximum daily outstanding balance of deposits	RMB	360,000	354,716
2) Other Financial Services (save for the provision of loans to the Group)	RMB	10,000	2,488
6. Sinochem Fertilizer purchases from/sells to Sinochem Group certain agrichemical and other related products	RMB	25,000	12,253
7. Dohigh Trading purchases sulphur and other fertilizer raw materials from Sinochem Group	USD	7,000	2,066
8. Sinochem Fertilizer purchases from Quanzhou Petrochemical solid industrial sulphur products	RMB	50,000	6,942

#### IV. 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 2014 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.

## V. 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, except for the continuing connected transactions in respect of the purchases of sulphur and other fertilizer raw materials from Sinochem Group and the sales of sulphur and other fertilizer raw materials to Sinochem Group amounted to approximately RMB751,282,000 and USD131,522,000 respectively during the year ended 31 December 2014 which exceeded the maximum annual value of RMB675,000,000 and USD110,000,000 as disclosed in the announcement of the Company dated 3 April 2014, 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 29 September 2014, Sinochem Fertilizer, Guizhou Kailin Holdings (Group) Co., Ltd., Guizhou Kailin Group Co., Ltd. ("Kailin Group") and other parties entered into a capital increase agreement, pursuant to which Sinochem Fertilizer subscribed for approximately 3.71% of the enlarged registered capital of Kailin Group and as a consideration of which, Sinochem Fertilizer disposed its 13.41% equity interests in Guiyang Sinochem Kailin Fertilizer Co., Ltd to Kailin Group. The details of the transaction was disclosed in the announcement of the Company dated 29 September 2014. The above transaction was completed in December 2014.

On 9 December 2014, the Board announced that Sinochem Fertilizer proposed to enter into a share transfer agreement with Sinochem Corporation, pursuant to which Sinochem Fertilizer shall acquire, and Sinochem Corporation shall sell, 238,791,954 issued shares of Qinghai Salt Lake Industry Co., Ltd (“Qinghai Salt Lake”), representing 15.01% of its total issued share capital, at a total consideration of RMB3,890,101,118.75 (the “Acquisition”). Prior to the Acquisition, Sinochem Fertilizer owns 142,260,369 shares of Qinghai Salt Lake, representing 8.94% of its total issued share capital. Upon completion of the Acquisition, Sinochem Fertilizer will hold 381,052,323 shares of Qinghai Salt Lake, representing 23.95% of the total share capital and will become the second largest shareholder of Qinghai Salt Lake. The details of the proposed Acquisition were disclosed in the circular of the Company dated 27 January 2015. The Acquisition was subsequently approved by the independent shareholders of the Company in a special general meeting held on 12 February 2015.

Save for the disclosures as above and in this report, the Company had no other major discloseable events during the year ended 31 December 2014.

## 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 2014 and up to the date of this report.

## 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 50 to 51.

## Retirement Benefits Scheme

Details of the retirement benefits scheme of the Group are set out in note 40 to the consolidated financial statements.

## Housing Funds

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

## Post Balance Sheet Event

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

## Auditor

The consolidated financial statements of the Group for the year ended 31 December 2014 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 at the forthcoming annual general meeting of the Company.

The consolidated financial statements of the Group for the year ended 31 December 2011 were audited by Deloitte Touche Tohmatsu, who retired as auditors of the Company at the annual general meeting of the Company held on 14 June 2012. KPMG was appointed as the auditors of the Company for the years ended 31 December 2012, 31 December 2013 and 31 December 2014 at the annual general meetings of the Company held on 14 June 2012, 13 June 2013 and 15 May 2014, respectively.

For and on behalf of the Board

**Liu De Shu**  
*Chairman*

Hong Kong, 26 March 2015

# INDEPENDENT AUDITOR'S REPORT



## TO THE SHAREHOLDERS OF SINFERT HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Sinfert Holdings Limited (“the Company”) and its subsidiaries (together “the Group”) set out on pages 85 to 175, which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of profit or loss and other 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 the Group's affairs as at 31 December 2014 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

26 March 2015

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
<b>Turnover</b>			
Cost of sales	4(a)	<b>28,311,086</b> <b>(26,892,985)</b>	34,721,849 (33,442,353)
<b>Gross profit</b>		<b>1,418,101</b>	1,279,496
Other income and gains	5	<b>463,436</b>	244,359
Selling and distribution expenses		<b>(840,871)</b>	(854,307)
Administrative expenses		<b>(599,717)</b>	(633,311)
Other expenses and losses		<b>(103,997)</b>	(167,367)
Share of results of associates		<b>133,660</b>	105,917
Share of results of joint ventures		<b>(55,500)</b>	(15,195)
Finance costs	6	<b>(142,990)</b>	(240,974)
<b>Profit/(Loss) before taxation</b>	7	<b>272,122</b>	(281,382)
Income tax	8(a)	<b>(136,700)</b>	(343,424)
<b>Profit/(Loss) for the year</b>		<b>135,422</b>	(624,806)
<b>Profit/(Loss) for the year attributable to:</b>			
– Owners of the Company		<b>229,339</b>	(476,340)
– Non-controlling interests		<b>(93,917)</b>	(148,466)
		<b>135,422</b>	(624,806)

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

For the year ended 31 December 2014

(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
<b>Profit/(Loss) for the year</b>		<b>135,422</b>	(624,806)
<b>Other comprehensive income/(expense)</b>			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		<b>4,179</b>	(107,971)
Changes in fair value of available-for-sale investments		<b>(5,591)</b>	13,158
<b>Other comprehensive expense for the year</b>	9	<b>(1,412)</b>	(94,813)
<b>Total comprehensive income/(expense) for the year</b>		<b>134,010</b>	(719,619)
<b>Total comprehensive income/(expense) attributable to:</b>			
– Owners of the Company		<b>227,927</b>	(571,153)
– Non-controlling interests		<b>(93,917)</b>	(148,466)
		<b>134,010</b>	(719,619)
<b>Earnings/(Losses) per share</b>			
Basic (RMB)	13	<b>0.0326</b>	(0.0678)
Diluted (RMB)	13	<b>0.0326</b>	(0.0678)

The notes on pages 93 to 175 form part of these financial statements. Details of dividends payable to equity shareholders of the Company for the year are set out in note 12.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014  
(Expressed in Renminbi)

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	3,783,755	3,312,182
Prepaid lease payments	15	514,076	507,169
Mining rights	16	675,984	707,169
Goodwill	17	812,319	811,356
Other long-term assets	18	8,783	10,450
Interests in associates	19	8,359,435	8,236,002
Interests in joint ventures	20	539,965	549,286
Available-for-sale investments	21	474,005	373,242
Advance payments for acquisition of property, plant and equipment		43,490	30,270
Deferred tax assets	32	198,559	337,172
		<b>15,410,371</b>	14,874,298
<b>Current assets</b>			
Inventories	22	5,948,265	4,393,037
Trade and bills receivables	23	1,276,330	1,250,244
Other receivables and advance payments	24	1,248,769	1,375,907
Loans to an associate	25	700,000	887,000
Prepaid lease payments	15	13,159	13,215
Other deposits	26	151,200	671,800
Bank balances and cash	27	462,890	363,782
		<b>9,800,613</b>	8,954,985
<b>Current liabilities</b>			
Trade and bills payables	28	4,628,833	2,618,789
Other payables and receipt in advance	29	3,882,756	3,570,273
Interest-bearing borrowings – due within one year	30	184,411	425,335
Short-term commercial paper	31	–	1,000,000
Financial liability		25,633	–
Tax liabilities		13,533	16,308
		<b>8,735,166</b>	7,630,705
<b>Net current assets</b>		<b>1,065,447</b>	1,324,280
<b>Total assets less current liabilities</b>		<b>16,475,818</b>	16,198,578

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2014

(Expressed in Renminbi)

	Note	As at 31 December	
		2014 RMB'000	2013 RMB'000
<b>Non-current liabilities</b>			
Interest-bearing borrowings			
– due after one year	30	<b>2,688,485</b>	2,486,135
Deferred income		<b>115,788</b>	122,456
Deferred tax liabilities	32	<b>246,755</b>	259,082
Other long-term liabilities		<b>42,502</b>	37,928
		<b>3,093,530</b>	2,905,601
<b>NET ASSETS</b>			
		<b>13,382,288</b>	13,292,977
<b>CAPITAL AND RESERVES</b>			
Issued equity	33	<b>8,267,384</b>	8,267,384
Reserves		<b>5,047,992</b>	4,820,065
Total equity attributable to owners of the Company		<b>13,315,376</b>	13,087,449
Non-controlling interests		<b>66,912</b>	205,528
<b>TOTAL EQUITY</b>		<b>13,382,288</b>	13,292,977

The consolidated financial statements on pages 85 to 175 were approved and authorized for issue by the board of directors on 26 March 2015 and are signed on its behalf by:

**Liu Deshu**  
Director

**Wang Hongjun**  
Director

The notes on pages 93 to 175 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

(Expressed in Renminbi)

	Attributable to owners of the Company										
	Issued equity	Merger reserve	Capital reserve	Investment				Retained profits	Non-controlling Total	Total Equity	
				Statutory reserve	revaluation reserve	Other reserve	Exchange reserve				controlling interests
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
		(note a)	(note b)	(note c)		(note d)					
<b>Balance at 1 January 2013</b>	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
Loss for the year	-	-	-	-	-	-	-	(476,340)	(476,340)	(148,466)	(624,806)
Other comprehensive income/(expense) for the year	-	-	-	-	13,158	-	(107,971)	-	(94,813)	-	(94,813)
Total comprehensive income/(expense) for the year	-	-	-	-	13,158	-	(107,971)	(476,340)	(571,153)	(148,466)	(719,619)
Energy saving and emission reduction fund (note d)	-	-	-	-	-	5,120	-	-	5,120	-	5,120
Maintenance and production fund (note d)	-	-	-	-	-	(5,027)	-	5,027	-	-	-
Dividends approved in respect of the previous year	-	-	-	-	-	-	-	(130,693)	(130,693)	-	(130,693)
Paid-in capital contributed by non-controlling interests	-	-	-	-	-	-	-	-	-	44,100	44,100
Acquisition of non-controlling interests	-	-	(9,314)	-	-	-	-	-	(9,314)	(186)	(9,500)
Capital injection to a subsidiary only by the Group to dilute the non-controlling interests	-	-	-	-	-	-	-	(8,278)	(8,278)	8,278	-
Distributions to non-controlling interests	-	-	-	-	-	-	-	-	-	(19,064)	(19,064)
<b>Balance at 31 December 2013</b>	<b>8,267,384</b>	<b>255,531</b>	<b>476,798</b>	<b>366,484</b>	<b>16,444</b>	<b>92,705</b>	<b>(844,466)</b>	<b>4,456,569</b>	<b>13,087,449</b>	<b>205,528</b>	<b>13,292,977</b>
<b>1 January 2014</b>	<b>8,267,384</b>	<b>255,531</b>	<b>476,798</b>	<b>366,484</b>	<b>16,444</b>	<b>92,705</b>	<b>(844,466)</b>	<b>4,456,569</b>	<b>13,087,449</b>	<b>205,528</b>	<b>13,292,977</b>
Profit/(Loss) for the year	-	-	-	-	-	-	-	229,339	229,339	(93,917)	135,422
Other comprehensive (expense)/income for the year	-	-	-	-	(5,591)	-	4,179	-	(1,412)	-	(1,412)
Total comprehensive (expense)/income for the year	-	-	-	-	(5,591)	-	4,179	229,339	227,927	(93,917)	134,010
Maintenance and production fund (note d)	-	-	-	-	-	(22,433)	-	22,433	-	-	-
Deregistration of subsidiaries	-	-	-	-	-	-	-	-	-	(44,699)	(44,699)
<b>Balance at 31 December 2014</b>	<b>8,267,384</b>	<b>255,531</b>	<b>476,798</b>	<b>366,484</b>	<b>10,853</b>	<b>70,272</b>	<b>(840,287)</b>	<b>4,708,341</b>	<b>13,315,376</b>	<b>66,912</b>	<b>13,382,288</b>

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the year ended 31 December 2014

(Expressed in Renminbi)

Notes:

- a. The merger reserve comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of shares issued by the holding companies as consideration for the Group restructuring transactions in previous years.
- b. The capital reserve of the Group mainly represents contributions from/distributions to the ultimate holding company, Sinochem Group (“Sinochem Group”, established in the People’s Republic of China (the “PRC”)), 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 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 used to make good previous years’ losses, if any, and may be converted into capital in proportion to the existing equity interests of investors.
- 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 93 to 175 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

(Expressed in Renminbi)

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Operating activities</b>		
Profit/(Loss) before taxation	272,122	(281,382)
Adjustments for:		
Share of results of associates	(133,660)	(105,917)
Share of results of joint ventures	55,500	15,195
Dividend income from available-for-sale investments	(3,042)	(3,160)
Write-off of payables	(11,744)	(12,353)
Release of deferred income	(9,668)	(14,115)
Interest income from bank deposits	(8,731)	(7,322)
Interest income from other deposits	(89,845)	(38,887)
Interest income from an associate	(48,277)	(49,664)
Finance costs	142,990	240,974
Gain on disposal of an associate	–	(421)
Gain on disposal of an available-for-sale investment	(106,754)	(1,047)
Gain on disposal of a subsidiary	(1,881)	–
Depreciation of property, plant and equipment	297,657	291,993
Impairment loss on property, plant and equipment	7,498	–
Loss on disposal of property, plant and equipment	4,786	648
Gain on disposal of investment properties	–	(14,964)
Waived consideration payable	–	(25,000)
Release of prepaid lease payments	12,121	12,003
Amortization of mining rights	32,625	33,368
Amortization of other long-term assets	6,533	6,698
Write-down of trade receivables	477	15,893
Write-down of other receivables	–	21,551
Reversal of collectible receivables	(10,800)	–
Write-down of inventories	26,755	93,677
Impairment loss on an available-for-sale investment	–	8,000
Changes in fair value of the financial liability	25,587	–
Operating cash flows before movements		
in working capital	460,249	185,768
(Increase)/Decrease in inventories	(1,580,978)	889,184
Increase in trade and bills receivables	(20,362)	(295,189)
Decrease in other receivables and advance payments	131,615	673,147
Increase in deferred income	3,000	1,300
Increase/(Decrease) in trade and bills payables	2,011,497	(924,258)
Increase in other payables and receipt in advance	515,408	176,867
Cash generated from operations	1,520,429	706,819
Income tax paid	(13,189)	(27,125)
<b>Net cash generated from operating activities</b>	<b>1,507,240</b>	<b>679,694</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2014

(Expressed in Renminbi)

	Note	2014 RMB'000	2013 RMB'000
<b>Investing activities</b>			
Purchase of property, plant and equipment		(800,082)	(451,308)
Additions of prepaid lease payments		(19,118)	(181)
Proceeds from disposals of property, plant and equipment		8,292	2,670
Proceeds from disposals of investment properties		–	29,564
Acquisition of a subsidiary		–	(395,000)
Acquisition of other long-term assets		(6,306)	(11,928)
Placement of other deposits		(16,133,600)	(23,332,590)
Proceeds from withdrawal of other deposits		16,654,200	23,518,990
Collection of loan to an associate		187,000	400,000
Interest received from bank deposits		8,731	7,322
Interest received from other deposits		89,845	34,522
Interest received from an associate		37,653	64,313
Withdrawal of pledged bank deposits		–	2
Dividends received from associates		10,972	46,339
Dividends received from joint ventures		4,821	22,310
Dividends received from available-for-sale investments		3,042	3,160
Proceeds from disposal of an associate		–	1,196
Proceeds from disposal of an available-for-sale investment		–	2,556
Acquisition of non-controlling interests		–	(9,500)
Deregistration of subsidiaries		(44,699)	–
<b>Net cash generated from/(used in) investing activities</b>		<b>751</b>	<b>(67,563)</b>
<b>Financing activities</b>			
Repayment of borrowings		(11,094,442)	(7,226,461)
Proceeds from new borrowings		9,852,401	6,742,770
Interests paid		(166,597)	(212,406)
Dividends paid		–	(130,693)
Borrowings from Sinochem Group		–	200,000
Paid-in capital contributed by non-controlling interests		–	44,100
<b>Net cash used in financing activities</b>		<b>(1,408,638)</b>	<b>(582,690)</b>
<b>Net increase in cash and cash equivalents</b>		<b>99,353</b>	<b>29,441</b>
<b>Cash and cash equivalents at 1 January</b>	27	<b>363,782</b>	<b>334,682</b>
Effect of foreign exchange rate changes		(245)	(341)
<b>Cash and cash equivalents at 31 December</b>	27	<b>462,890</b>	<b>363,782</b>

The notes on pages 93 to 175 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. 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 is mainly engaged in manufacturing and selling of fertilizers and related products. Details of the Company’s principal subsidiaries are set out in note 39.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These 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, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), “Accounts and Audit”, which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange. 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The consolidated financial statements for the year ended 31 December 2014 comprise the Group and the Group's interest in associates and joint ventures.

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:

- 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.

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.

### (c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that 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 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- HK(IFRIC) 21, *Levies*



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Changes in accounting policies (continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of the new or amended HKFRSs are discussed below:

#### **Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities***

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have any impact on the Group's financial report as the Company and its subsidiaries do not qualify to be investment entities.

#### **Amendments to HKAS 32, *Offsetting financial assets and financial liabilities***

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

#### **Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets***

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have any material impact on the Group's financial statements.

#### **HK(IFRIC) 21, *Levies***

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognized. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (c) Changes in accounting policies (continued)

	Effective for accounting periods beginning on or after
Amendments to HKAS 19, <i>Defined benefit plans:</i>	1 July 2014
<i>Employee contributions</i>	
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, <i>Accounting for     acquisitions of interests in joint operations</i>	1 January 2016
Amendments to HKAS 16 and HKAS 38, <i>Clarification of     acceptable methods of depreciation and amortisation</i>	1 January 2016
HKFRS 15, <i>Revenue from contracts with customers</i>	1 January 2017
HKFRS 9, <i>Financial instruments</i>	1 January 2018

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

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

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

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, transactions, and cash flows 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 profits but only to the extent that there is no evidence of impairment.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 choose to measure any non-controlling interests at fair value 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 profit or loss and other 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.

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 a joint venture (see note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (e) Associates and joint ventures

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 joint venture is an arrangement whereby the Group and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Associates and joint ventures (continued)

An investment in an associate or a joint venture 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 2(m)). 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 included in the Group's consolidated 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 profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associates or the joint ventures, 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 associate or the joint venture.

Unrealized profits and losses resulting from transactions between the Group and its associates and joint ventures 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.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, 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)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (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(m)).

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.

### (g) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses 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 note 2(v)(iii) and 2(v)(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(m)).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (g) Other investments in debt and equity securities (continued)

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. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognized in the statement of financial position at cost less impairment losses (see note 2(m)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognized in profit or loss in accordance with the policies set out in notes 2(v)(iii) and 2(v)(iv), respectively. Foreign exchange gains and losses resulting from changes in the amortized cost of debt securities are also recognized in profit or loss.

When the investments are derecognized or impaired (see note 2(m)), the cumulative gain or loss recognized in equity is reclassified to profit or loss. Investments are recognized/derecognized on the date the Group commits to purchase/sell the investments or they expire.

### (h) Property, plant and equipment

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

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(x)).

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 recognized 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Property, plant and equipment (continued)

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

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

<u>Category</u>	<u>Years of depreciation</u>
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.

### (i) Construction in progress

Construction in progress is stated at cost less impairment losses (see note 2(m)). Cost comprises direct costs of construction as well as interest expense capitalized during the periods of construction and installation. Capitalisation 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.

### (j) Mining rights

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (k) 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.

### (l) Prepaid lease payments and other long-term assets

Prepaid lease payments represent land use rights under operating leases 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(m)). The cost of prepaid lease payments 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) 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 associates and joint ventures accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(m)(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(m)(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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) 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 fair value 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

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

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.

#### (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;
- prepaid lease payments;
- 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

#### (ii) Impairment of other assets (continued)

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal 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 of disposal (if measurable), or value in use (if determinable).

- 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (m) Impairment of assets (continued)

#### (iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, 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(m)(i) and 2(m)(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.

### (n) Inventories

Inventories are carried 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.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognized as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (o) 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(m)), 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.

### (p) 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.

### (q) 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.

### (r) 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.

### (s) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (t) 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.

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.

Additional income taxes that arise from the distribution of dividends are recognized when the liability to pay the related dividends is recognized.

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 realize 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 realize the current tax assets and settle the current tax liabilities on a net basis or realize and settle simultaneously.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (u) Provisions and contingent liabilities

Provisions are recognized for other liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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.

### (v) 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' premises 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (v) Revenue recognition (continued)

#### (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.

#### (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 income 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.

### (w) 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 measured.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) Translation of foreign currencies (continued)

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.

### (x) 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. Other borrowing costs are expensed in the period in which they are incurred.

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (y) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### (z) 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 2014, the carrying amount of inventories is RMB5,948,265,000 (2013: RMB4,393,037,000).

### 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 3 ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### 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 2014, the carrying amount of goodwill is RMB812,319,000 (2013: RMB811,356,000). Details of the recoverable amount calculation are disclosed in note 17.

### Impairment of interest in associates

As at 31 December 2014, the carrying amount of interests in associates is RMB8,359,435,000 (2013: RMB8,236,002,000). 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.

### Realizability of deferred tax assets

As at 31 December 2014, a deferred tax asset of RMB155,143,000 (2013: RMB279,881,000) 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 RMB1,530,990,000 (2013: RMB1,233,035,000) 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 4 TURNOVER AND SEGMENT REPORTING

### (a) Turnover

Turnover represents the sales value of fertilizers and related products. The following is an analysis of the Group's revenue from its major fertilizer products:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Potash Fertilizer	6,242,557	7,464,758
Nitrogen Fertilizer	7,753,464	12,474,903
Compound Fertilizer	5,441,242	5,450,853
Phosphate Fertilizer	6,941,815	7,936,128
MCP/MDCP	721,969	626,862
Others	1,210,039	768,345
	<b>28,311,086</b>	34,721,849

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

### (b) Segment reporting

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

- Marketing: sourcing and distribution of fertilizers and related products
- Production: production and sales of fertilizers

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 4 TURNOVER AND SEGMENT REPORTING (continued)

### (b) Segment reporting (continued)

#### (i) *Segment results, 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 joint ventures 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 joint ventures.

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 joint ventures, available-for-sale investments, deferred tax assets and other unallocated assets; and
- All liabilities are allocated to operating segments other than deferred tax liabilities and other unallocated liabilities.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 4 TURNOVER AND SEGMENT REPORTING (continued)

### (b) Segment reporting (continued)

#### (i) Segment results, assets and liabilities (continued)

2014

	Marketing RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
External revenue	26,105,227	2,205,859	-	28,311,086
Internal revenue	962,691	2,774,971	(3,737,662)	-
Segment revenue	27,067,918	4,980,830	(3,737,662)	28,311,086
Segment gross profit	1,052,450	365,651	-	1,418,101
Segment profit/(loss)	377,808	(214,413)	-	163,395
Share of results of associates	1,425	132,235	-	133,660
Share of results of joint ventures	1,838	(57,338)	-	(55,500)
Unallocated expenses				(107,773)
Unallocated income				281,330
Finance costs				(142,990)
<b>Profit before taxation</b>				<b>272,122</b>
<b>Assets</b>				
Segment assets	8,017,274	6,651,232	-	14,668,506
Interests in associates	16,677	8,342,758	-	8,359,435
Interests in joint ventures	55,186	484,779	-	539,965
Available-for-sale investments				474,005
Deferred tax assets				198,559
Other unallocated assets				970,514
Consolidated total assets				25,210,984
<b>Liabilities</b>				
Segment liabilities	7,487,868	1,165,136	-	8,653,004
Deferred tax liabilities				246,755
Other unallocated liabilities				2,928,937
Consolidated total liabilities				11,828,696

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 4 TURNOVER AND SEGMENT REPORTING (continued)

### (b) Segment reporting (continued)

#### (i) Segment results, assets and liabilities (continued)

2013

	Marketing RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue				
External revenue	31,080,307	3,641,542	–	34,721,849
Internal revenue	491,552	1,702,701	(2,194,253)	–
Segment revenue	31,571,859	5,344,243	(2,194,253)	34,721,849
Segment gross profit	852,144	427,352	–	1,279,496
Segment profit/(loss)	61,798	(252,306)	–	(190,508)
Share of results of associates	1,468	104,449	–	105,917
Share of results of joint ventures	234	(15,429)	–	(15,195)
Unallocated expenses				(72,159)
Unallocated income				131,537
Finance costs				(240,974)
<b>Loss before taxation</b>				<b>(281,382)</b>
<b>Assets</b>				
Segment assets	6,141,681	6,695,368	–	12,837,049
Interests in associates	15,948	8,220,054	–	8,236,002
Interests in joint ventures	2,349	546,937	–	549,286
Available-for-sale investments				373,242
Deferred tax assets				337,172
Other unallocated assets				1,496,532
Consolidated total assets				23,829,283
<b>Liabilities</b>				
Segment liabilities	5,139,128	1,148,809	–	6,287,937
Deferred tax liabilities				259,082
Other unallocated liabilities				3,989,287
Consolidated total liabilities				10,536,306

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 4 TURNOVER AND SEGMENT REPORTING (continued)

### (b) Segment reporting (continued)

#### (ii) Other segment information

2014

	Marketing RMB'000	Production RMB'000	Unallocated RMB'000	Total RMB'000
<b>Amounts included in the measures of segment profit/ (loss) and segment assets:</b>				
Additions to non-current assets	10,257	805,963	12	816,232
Write-down of trade receivables	-	(477)	-	(477)
Reversal of collectible receivables	10,800	-	-	10,800
Impairment loss on property, plant and equipment	-	(7,498)	-	(7,498)
Depreciation and amortization	(10,920)	(325,884)	(11)	(336,815)
Release of prepaid lease payments	-	(12,121)	-	(12,121)
Write-down of inventories	(11,297)	(15,458)	-	(26,755)
Gain/(Loss) on disposal of property, plant and equipment	172	(4,958)	-	(4,786)
Write-off of payables	625	11,119	-	11,744

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 4 TURNOVER AND SEGMENT REPORTING (continued)

#### (b) Segment reporting (continued)

##### (ii) Other segment information (continued)

2013

	Marketing RMB'000	Production RMB'000	Unallocated RMB'000	Total RMB'000
<b>Amounts included in the measures of segment profit/ (loss) and segment assets:</b>				
Additions to non-current assets	32,403	424,457	12	456,872
Write-down of trade receivables	–	(15,893)	–	(15,893)
Write-down of other receivables	–	(21,551)	–	(21,551)
Depreciation and amortization	(11,226)	(320,820)	(13)	(332,059)
Release of prepaid lease payments	(2,667)	(9,336)	–	(12,003)
Write-down of inventories	(71,359)	(22,318)	–	(93,677)
Loss on disposal of property, plant and equipment	(43)	(605)	–	(648)
Gain on disposal of investment properties	14,964	–	–	14,964
Write-off of payables	11,668	685	–	12,353

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 4 TURNOVER AND SEGMENT REPORTING (continued)

### (b) Segment reporting (continued)

#### (iii) 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	
	2014	2013	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The PRC	<b>27,110,559</b>	34,023,052	<b>14,721,377</b>	14,147,791
Others	<b>1,200,527</b>	698,797	<b>16,430</b>	16,093
	<b>28,311,086</b>	34,721,849	<b>14,737,807</b>	14,163,884

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 5 OTHER INCOME AND GAINS

	Note	2014 RMB'000	2013 RMB'000
Rental income		3,727	3,548
Dividend income from available-for-sale investments	a	3,042	3,160
Interest income from bank deposits		8,731	7,322
Interest income from other deposits		89,845	38,887
Interest income from an associate		48,277	49,664
Government grants	b	23,836	5,243
Foreign exchange gain		56,581	4,386
Sales of semi-product, raw materials and scrapped materials		37,529	16,412
Release of deferred income		9,668	14,115
Compensation received		18,382	13,986
Write-off of payables		11,744	12,353
Waived consideration payable		–	25,000
CDM income		–	3,622
Gain on disposal of an associate		–	421
Gain on disposal of a subsidiary		1,881	–
Gain on disposal of an available-for-sale investment	c	106,754	1,047
Gain on disposal of investment properties		–	14,964
Others		43,439	30,229
		<b>463,436</b>	<b>244,359</b>

Notes:

- Amount represents dividend income from listed investments of RMB3,042,000 (2013: RMB3,160,000) and the Group did not receive any dividend income from unlisted investments (2013: nil.).
- Government grants mainly comprised payments from the government to support the business development of the Group entities in accordance with applicable law, regulations in the PRC.
- Sinochem Fertilizer Co., Ltd. (“Sinochem Fertilizer”, a subsidiary of the Group) has 13.41% equity interest in Guiyang Sinochem Kailin Fertilizer Co., Ltd. (“Sinochem Kailin”) which is accounted as an available-for-sale investment of the Group as at 31 December 2013. Pursuant to the capital increase agreement between Sinochem Fertilizer, Guizhou Kailin Group Co., Ltd. (“Kailin Group”) and other participants dated 29 September 2014, Sinochem Fertilizer has agreed to subscribe for the increased registered capital of Kailin Group and as consideration for which, Sinochem Fertilizer shall transfer its 13.41% equity interest in Sinochem Kailin to Kailin Group. The consideration of the transaction was determined based on the valuation of the assets including Sinochem Kailin and Kailin Group as at 30 September 2014 prepared by an independent valuer.

Upon completion of the transaction in 2014, Sinochem Fertilizer was no longer holding any direct equity interest in Sinochem Kailin, but instead held equity interest representing approximately 3.71% of the enlarged registered capital of Kailin Group. Sinochem Fertilizer derecognized the available-for-sale investment in Sinochem Kailin, recognized a new available-for-sale investment in Kailin Group at fair value, and recognized a gain for the derecognition of the available-for-sale investment of RMB106,754,000 accordingly.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 6 FINANCE COSTS

	Note	2014 RMB'000	2013 RMB'000
Interest on borrowings			
– wholly repayable within five years		142,990	113,624
– not wholly repayable within five years		–	127,350
		<b>142,990</b>	240,974

## 7 PROFIT/(LOSS) BEFORE TAXATION

	Note	2014 RMB'000	2013 RMB'000
Director's emoluments	10	5,237	5,147
Other staff benefits	a	627,119	649,322
Total employee benefits expenses		<b>632,356</b>	654,469
Depreciation of property, plant and equipment		297,657	291,993
Release of prepaid lease payments		12,121	12,003
Amortization of mining rights		32,625	33,368
Amortization of other long-term assets		6,533	6,698
Auditors' remuneration		4,250	4,389
Operating lease charge – minimum lease payments	b	45,560	47,088
Direct operating expenses arising from investment properties that generate rental income		–	150
Loss on disposal of property, plant and equipment		4,786	648
Impairment loss on an available-for-sale investment		–	8,000
Write-down of trade receivables		477	15,893
Write-down of other receivables		–	21,551
Write-down of inventories	c	26,755	93,677
Impairment loss on property, plant and equipment		7,498	–
Reversal of collectible receivables		(10,800)	–

Note:

- Contribution to retirement benefits scheme included in other staff benefits for the year ended 31 December 2014 is RMB69,094,000 (2013: RMB73,304,000).
- Minimum lease payments under operating lease in respect of retail outlets, offices and warehouses.
- During the year ended 31 December 2014, write-down of inventories amounting to approximately RMB26,755,000 (2013: RMB93,677,000) is recorded and recognized in other expenses and losses. Such write-down is related to inventories on hand (see note 22) as at the end of reporting period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represents:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Provision for the year</b>		
PRC Enterprise Income Tax	(8,319)	(8,765)
<b>Over/(under)-provision in prior years</b>		
Hong Kong Profits Tax	49	–
PRC Enterprise Income Tax	(2,141)	(9,829)
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(126,289)	(324,830)
	<b>(136,700)</b>	<b>(343,424)</b>

- (i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands (“BVI”), the Group is not subject to income tax in Bermuda and the BVI.
- (ii) The provision for Hong Kong Profits Tax for 2014 is calculated at 16.5% (2013: 16.5%) of the estimated assessable profits for the year.
- (iii) 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.
- (iv) A subsidiary of the Group incorporated in Macao SAR is exempted from income tax.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Profit/(Loss) before taxation	272,122	(281,382)
Tax calculated at the applicable tax rate of 25%	(68,030)	70,345
Effect of different income tax rates	41,875	5,496
Tax effect of non-deductible expenses	(30,009)	(14,726)
Tax effect of non-taxable income	619	4,970
Tax effect of share of results of associates	33,415	26,112
Tax effect of share of results of joint ventures	(13,875)	(3,799)
Effect of prior year's tax losses and deductible temporary differences utilized during the year	2,830	2,335
Effect of tax losses and deductible temporary difference not recognized	(56,164)	(72,925)
Tax effect of write-down of deferred tax assets recognized in previous years (see note 32(a))	(45,269)	(351,403)
Under-provision in prior years	(2,092)	(9,829)
Income tax expense for the year	(136,700)	(343,424)

### 9 OTHER COMPREHENSIVE EXPENSE

The components of other comprehensive expense do not have any significant tax effect for the years ended 31 December 2014 and 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 10 DIRECTORS' REMUNERATION

The emoluments paid or payable to each of the directors for the year ended 31 December 2014 and 2013 were as follows:

2014

	Fees <i>RMB'000</i>	Salaries and other benefits <i>RMB'000</i>	Performance related incentive payments <i>RMB'000</i> <i>(note a)</i>	Retirement benefits scheme contribution <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Chairman</b>					
Mr. LIU De Shu <i>(note c)</i>	-	-	-	-	-
<b>Executive directors</b>					
Mr. WANG Hong Jun (appointed on 7 March 2014)	-	1,457	1,735	33	3,225
Mr. FENG Zhi Bin (resigned on 7 March 2014)	-	481	520	9	1,010
Mr. Harry YANG <i>(note b)</i>	-	2,047	1,482	40	3,569
<b>Non-executive directors</b>					
Mr. YANG Lin <i>(note c)</i>	-	-	-	-	-
Dr. Stephen Francis DOWDLE <i>(note c)</i>	-	-	-	-	-
Ms. XIANG Dan Dan <i>(note c)</i>	-	-	-	-	-
<b>Independent non-executive directors</b>					
Mr. KO Ming Tung, Edward	368	-	-	-	368
Dr. TANG Tin Sek (passed away on 2 December 2014)	368	-	-	-	368
Mr. TSE Hau Yin, Aloysius	434	-	-	-	434
	<b>1,170</b>	<b>3,985</b>	<b>3,737</b>	<b>82</b>	<b>8,974</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 10 DIRECTORS' REMUNERATION (continued)

2013

	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
<b>Chairman</b>					
Mr. LIU De Shu (note c)	–	–	–	–	–
<b>Executive directors</b>					
Mr. FENG Zhi Bin	–	1,839	–	37	1,876
Mr. Harry YANG (note b)	–	2,049	–	37	2,086
<b>Non-executive directors</b>					
Mr. YANG Lin (note c)	–	–	–	–	–
Dr. Stephen Francis DOWDLE (note c)	–	–	–	–	–
Ms. XIANG Dan Dan (note c)	–	–	–	–	–
<b>Independent non-executive directors</b>					
Mr. KO Ming Tung, Edward	373	–	–	–	373
Dr. TANG Tin Sek	373	–	–	–	373
Mr. TSE Hau Yin, Aloysius	439	–	–	–	439
	1,185	3,888	–	74	5,147

Notes:

- 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 2014 and 2013.
- During the year ended 31 December 2014, the Group paid approximately RMB1,574,000 as salaries and other benefits (2013: RMB1,592,000) and paid approximately RMB473,000 rental for housing (2013: RMB457,000) of Mr. Harry Yang, all of which are included in salaries and other benefits.
- 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 RMB303,000) for the year ended 31 December 2014.

Directors' fee waived by Mr. Liu De Shu, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dan Dan were HK\$385,000 each (equivalent to approximately RMB307,000) for the year ended 31 December 2013.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2013: two) were directors of the Company, whose emoluments are disclosed in note 10. The emoluments of the remaining three (2013: three) individuals were as follows:

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
Salaries and other benefits	<b>2,032</b>	2,037
Performance related incentive payments	<b>2,119</b>	–
Retirement benefits scheme contribution	<b>119</b>	110
	<b>4,270</b>	2,147

The emoluments were within the following bands:

	<b>2014</b> <i>Number of individuals</i>	2013 <i>Number of individuals</i>
Nil to HK\$1,000,000	–	3
HK\$1,000,001 to HK\$1,500,000	–	–
HK\$1,500,001 to HK\$2,000,000	<b>2</b>	–
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	–	–
	<b>3</b>	3

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 12 DIVIDENDS

Final dividend in respect of the previous financial year, approved and paid during the year, nil for year 2014 (2013: HK\$0.0232, equivalent to approximately RMB0.0187 per share)

Proposed final dividend of HK\$0.0104, equivalent to approximately RMB0.0082 per share (2013: No dividend proposed)

2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
–	130,693
<b>57,633</b>	–

## 13 EARNINGS/(LOSSES) PER SHARE

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

### Earnings/(Losses)

Earnings/(Losses) for the purpose of basic/diluted earnings/(losses) per share

2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>229,339</b>	(476,340)

### Number of shares

Weighted average number of ordinary shares for the purpose of basic/diluted earnings/(losses) per share

2014 <i>'000 shares</i>	2013 <i>'000 shares</i>
<b>7,024,456</b>	7,024,456

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 14 PROPERTY, PLANT AND EQUIPMENT

	Buildings <i>RMB'000</i>	Plant, machinery and equipments <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Furniture & fixtures <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Cost</b>						
At 1 January 2013	1,726,247	2,124,385	84,858	277,767	211,176	4,424,433
Exchange realignment	(95)	-	(42)	(81)	-	(218)
Additions	41,177	9,013	9,372	10,100	375,101	444,763
Transfer from construction in progress	60,313	59,106	-	255	(119,674)	-
Disposals	(1,258)	(879)	(5,715)	(8,330)	-	(16,182)
<b>At 31 December 2013</b>	<b>1,826,384</b>	<b>2,191,625</b>	<b>88,473</b>	<b>279,711</b>	<b>466,603</b>	<b>4,852,796</b>
At 1 January 2014	1,826,384	2,191,625	88,473	279,711	466,603	4,852,796
Exchange realignment	17	-	7	-	-	24
Additions	12,428	24,106	6,704	6,375	741,195	790,808
Transfer from construction in progress	84,628	42,518	-	30,281	(157,427)	-
Disposals	(24,888)	(47,657)	(12,693)	(6,374)	-	(91,612)
<b>At 31 December 2014</b>	<b>1,898,569</b>	<b>2,210,592</b>	<b>82,491</b>	<b>309,993</b>	<b>1,050,371</b>	<b>5,552,016</b>
<b>Depreciation and impairment</b>						
At 1 January 2013	(320,794)	(771,849)	(35,187)	(133,866)	-	(1,261,696)
Exchange realignment	95	-	41	75	-	211
Charge for the year	(77,207)	(185,631)	(9,489)	(19,666)	-	(291,993)
Disposals	209	659	5,184	6,812	-	12,864
<b>At 31 December 2013</b>	<b>(397,697)</b>	<b>(956,821)</b>	<b>(39,451)</b>	<b>(146,645)</b>	<b>-</b>	<b>(1,540,614)</b>
At 1 January 2014	(397,697)	(956,821)	(39,451)	(146,645)	-	(1,540,614)
Exchange realignment	(17)	-	(7)	-	-	(24)
Charge for the year	(85,062)	(186,350)	(9,934)	(16,311)	-	(297,657)
Impairment loss	(34)	(7,420)	-	(44)	-	(7,498)
Disposals	14,976	47,524	9,939	5,093	-	77,532
<b>At 31 December 2014</b>	<b>(467,834)</b>	<b>(1,103,067)</b>	<b>(39,453)</b>	<b>(157,907)</b>	<b>-</b>	<b>(1,768,261)</b>
<b>Net book value</b>						
<b>At 31 December 2014</b>	<b>1,430,735</b>	<b>1,107,525</b>	<b>43,038</b>	<b>152,086</b>	<b>1,050,371</b>	<b>3,783,755</b>
At 31 December 2013	1,428,687	1,234,804	49,022	133,066	466,603	3,312,182

Certain property, plant and equipment were pledged to secure banking facilities granted to the Group as disclosed in note 30(c).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 15 PREPAID LEASE PAYMENTS

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

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Cost</b>		
At 1 January	<b>643,531</b>	643,350
Additions	<b>19,118</b>	181
Disposals	<b>(180)</b>	–
At 31 December	<b>662,469</b>	643,531
<b>Accumulated amortization</b>		
At 1 January	<b>(123,147)</b>	(111,144)
Charge for the year	<b>(12,121)</b>	(12,003)
Disposals	<b>34</b>	–
At 31 December	<b>(135,234)</b>	(123,147)
<b>Net book value</b>		
At 31 December	<b>527,235</b>	520,384
<b>Analysis for reporting purposes as</b>		
Current assets	<b>13,159</b>	13,215
Non-current assets	<b>514,076</b>	507,169
	<b>527,235</b>	520,384

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 16 MINING RIGHTS

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Cost</b>		
At 1 January	766,700	760,621
Addition	1,440	6,079
At 31 December	768,140	766,700
<b>Accumulated amortization</b>		
At 1 January	(59,531)	(26,163)
Charge for the year	(32,625)	(33,368)
At 31 December	(92,156)	(59,531)
<b>Net book value</b>		
At 31 December	675,984	707,169

### 17 GOODWILL

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Cost</b>		
At 1 January	811,356	820,162
Exchange adjustments	963	(8,806)
<b>Carrying amount</b>		
At 31 December	812,319	811,356



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 17 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	
	2014 RMB'000	2013 RMB'000
Marketing	249,749	249,044
Production		
– Sinochem Yunlong Co., Ltd. (“Sinochem Yunlong”)	531,074	531,074
– Others	31,496	31,238
	<b>812,319</b>	811,356

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 2015 approved by the directors of the Company. The growth rates for the first 3 years from 2015 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 17 GOODWILL (continued)

#### Impairment testing on goodwill (continued)

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

	<b>Marketing</b>	<b>Production</b>
Discount rate	7.68%	13%
Average growth rate for the first three years from 2015	9.33%	19.37%
Steady growth rate for the following years	6.80%	3%

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 2014.

### 18 OTHER LONG-TERM ASSETS

	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000
<b>Cost</b>		
At 1 January	<b>29,813</b>	23,964
Additions	<b>4,866</b>	5,849
At 31 December	<b>34,679</b>	29,813
<b>Accumulated amortization</b>		
At 1 January	<b>(19,363)</b>	(12,665)
Charge for the year	<b>(6,533)</b>	(6,698)
At 31 December	<b>(25,896)</b>	(19,363)
<b>Net book value</b>		
At 31 December	<b>8,783</b>	10,450

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 19 INTERESTS IN ASSOCIATES

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
At the end of reporting period, cost of investment in associates:		
– Listed in the PRC	<b>1,009,046</b>	1,009,046
– Unlisted	<b>404,310</b>	403,910
Goodwill	<b>5,790,569</b>	5,790,569
Share of profits, net of dividends	<b>1,155,510</b>	1,032,477
	<b>8,359,435</b>	8,236,002
Fair value of listed investments	<b>3,087,050</b>	2,380,016

The fair value of the listed investment has been determined by multiplying the closing share price on 31 December 2014 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 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 19 INTERESTS IN ASSOCIATES (continued)

As at 31 December 2014 and 2013, the associates of the Group are mainly listed below:

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		Proportion of voting power held		Principal activity
					2014	2013	2014	2013	
Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") 青海鹽湖工業股份有限公司	Incorporated	The PRC	The PRC	Ordinary	8.94%	8.94%	23.95% <sup>(1)</sup>	23.95%	Production and sales of fertilizers
Guizhou Xinxin Industrial and Agricultural Trading Co., Ltd. ("Xinxin Industrial") 貴州鑫新工業貿易有限公司	Incorporated	The PRC	The PRC	Ordinary	30%	30%	30%	30%	Production and sales of phosphate rock
Guizhou Xinchun Coal Chemical (Group) Co., Ltd. ("Xinchun Chemical") 貴州鑫晨煤化工(集團)有限公司	Incorporated	The PRC	The PRC	Ordinary	30%	30%	30%	30%	Production and sales of coal
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. ("Tianjin Beihai") 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
Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") 陽煤平原化工有限公司	Incorporated	The PRC	The PRC	Ordinary	36.75%	36.75%	36.75%	36.75%	Production and sales of fertilizers

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 19 INTERESTS IN ASSOCIATES (continued)

\* Sinochem Corporation, an immediate holding company of the Group, has 15.01% equity interests in Qinghai Salt Lake. As Sinochem Corporation has authorized the Group to exercise its voting rights in Qinghai Salt Lake on behalf of itself, the directors are of the opinion that the Group has significant influence on Qinghai Salt Lake.

On 9 December 2014, Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer"), a subsidiary of the Group proposed to enter into the Share Transfer Agreement with Sinochem Corporation, pursuant to which Sinochem Fertilizer shall acquire, and Sinochem Corporation shall sell, 238,791,954 issued shares of Qinghai Salt Lake, representing 15.01% of its total issued share capital, at a total consideration of RMB3,890,101,118.75 (equivalent to HK\$4,917,087,814.10). As at 31 December 2014, Sinochem Fertilizer owns 142,260,369 shares of Qinghai Salt Lake, representing 8.94% of its total issued share capital. After this acquisition, Sinochem Fertilizer will hold 381,052,323 shares of Qinghai Salt Lake, representing 23.95% of the total issued share capital and will become the second largest shareholder of Qinghai Salt Lake. On 12 February 2015, the transaction was approved by independent shareholders of the Company. And the Company will complete the transaction in 2015.

All of the associates are accounted for using the equity method in the consolidated financial statement.

Summarized financial information of the individually material associate and reconciled to the carrying amount in the consolidated financial statements is disclosed below:

	Qinghai Salt Lake	
	2014 RMB'000	2013 RMB'000
<b>Gross amount of the associate</b>		
Current assets	10,804,138	11,306,839
Non-current assets	61,099,115	49,293,161
Current liabilities	(14,331,025)	(9,475,867)
Non-current liabilities	(32,795,183)	(27,319,855)
Equity	24,777,045	23,804,278
– attributable to shareholders of the associate	23,166,450	22,209,300
– attributable to non-controlling interests	1,610,595	1,594,978
Revenue	10,446,242	8,094,573
Profit attributable to shareholders of the associate	1,063,770	724,812
Dividend received from the associate	9,531	45,523
<b>Reconciled to the Group's interests in the associate</b>		
Gross amounts of the net assets of the associate	23,166,450	22,209,300
Group's effective interest	8.94%	8.94%
Group's share of the net assets of the associate	2,071,081	1,985,512
Goodwill	5,790,569	5,790,569
Carrying amount in the consolidated financial statements	7,861,650	7,776,081

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 19 INTERESTS IN ASSOCIATES (continued)

Aggregate information of associates that are not individually material:

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	<b>497,785</b>	459,921
Aggregate amounts of the Group's share of those associates'		
Profit from continuing operation	<b>38,559</b>	41,119
Total comprehensive income	<b>38,559</b>	41,119

### 20 INTERESTS IN JOINT VENTURES

	<b>As at 31 December</b>	
	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
Unlisted shares, at cost	<b>488,793</b>	437,793
Share of profits, net of dividends	<b>51,172</b>	111,493
	<b>539,965</b>	549,286

All of the joint ventures are accounted for using the equity method in the consolidated financial statements. The following list contains only the particulars of major joint ventures, all of which are unlisted corporate entities whose quoted market price is not available:

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 20 INTERESTS IN JOINT VENTURES (continued)

Name of joint ventures	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2014	2013	
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Co., Ltd. 天津北方化肥物流配送有限公司 (note a)	The PRC	RMB3,000,000	60%	60%	Fertilizer logistics
Yunnan Three Circles-Sinochem -Mosaic Fertilizer Co., Ltd. ("Sinochem Mosaic") 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 Circles-Sinochem Fertilizer Co., Ltd ("Three Circles-Sinochem") 雲南三環中化化肥有限公司	The PRC	RMB800,000,000	40%	40%	Sales and manufacturing of fertilizers
Gansu Wengfu Chemical Co., Ltd ("Gansu Wengfu") 甘肅甕福化工有限責任公司	The PRC	RMB181,000,000	30%	30%	Sales and manufacturing of fertilizers
Hainan Zhongsheng Agricultural Technology Co., Ltd ("Hainan Zhongsheng") 海南中盛農業科技有限公司 (note a)	The PRC	RMB51,000,000	51%	51%	Sales of pesticides

Note:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 20 INTERESTS IN JOINT VENTURES (continued)

The directors of the Company are of the opinion that no joint ventures are individually material to the Group. Aggregate information of joint ventures that are not individually material are listed below:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	<b>539,965</b>	549,286
Aggregate amounts of the Group's share of those joint ventures'		
Loss from continuing operation	<b>(55,500)</b>	(15,195)
Total comprehensive expense	<b>(55,500)</b>	(15,195)

### 21 AVAILABLE-FOR-SALE INVESTMENTS

	<b>As at 31 December</b>	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Available-for-sale investments comprise:</b>		
– Listed equity securities	<b>85,818</b>	91,409
– Unlisted equity securities	<b>397,477</b>	291,123
Less: impairment losses	<b>(9,290)</b>	(9,290)
	<b>474,005</b>	373,242

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 represent investments in private entities in the PRC. Certain unlisted equity securities with carrying amount of RMB10,340,000 are subsequently measured at cost less impairment at the end of each reporting period. The rest unlisted equity securities are stated at fair value determined based on the valuation carried out by qualified independent valuers.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 22 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Fertilizer merchandise and finished goods	5,328,507	3,816,809
Raw materials	514,373	457,687
Work in progress	45,389	67,816
Consumables	59,996	50,725
	<b>5,948,265</b>	4,393,037

### 23 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade receivables	208,081	237,129
Less: allowance for doubtful debts (note (b))	(11,527)	(12,515)
	<b>196,554</b>	224,614
Bills receivables	1,079,776	1,025,630
Total trade and bills receivables	<b>1,276,330</b>	1,250,244

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 23 TRADE AND BILLS RECEIVABLES (continued)

#### (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:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Within 3 months	284,760	507,158
More than 3 months but within 6 months	951,402	669,681
More than 6 months but within 12 months	31,069	10,034
Over 12 months	9,099	63,371
	<b>1,276,330</b>	1,250,244

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.

#### (b) Impairment of trade receivables

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

	2014 RMB'000	2013 RMB'000
Balance at 1 January	12,515	–
Write-down of trade receivables	477	15,893
Write-off of uncollectible receivables	(1,465)	(3,378)
Balance at 31 December	<b>11,527</b>	12,515

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 23 TRADE AND BILLS RECEIVABLES (continued)

### (c) Trade debtors 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	
	2014	2013
	RMB'000	RMB'000
More than 3 months but within 6 months	44,946	1,909
More than 6 months but within 12 months	31,069	10,034
Over 12 months	9,099	63,371
	<b>85,114</b>	75,314

Included in the Group's trade receivables are debtors with aggregate carrying amount of RMB85,114,000 (2013: RMB75,314,000) 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 24 OTHER RECEIVABLES AND ADVANCE PAYMENTS

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Other receivables	286,585	170,165
Advance payments	977,042	1,231,400
Less: allowance for doubtful debts ( <i>note</i> )	(14,858)	(25,658)
Other receivables and advance payments	<b>1,248,769</b>	1,375,907

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

	2014 RMB'000	2013 RMB'000
Balance at 1 January	25,658	12,578
Write-down of other receivables and advance payments	-	21,551
Reversal of collectible receivables	(10,800)	-
Write-off of uncollectible receivables	-	(8,471)
Balance at 31 December	<b>14,858</b>	25,658

### 25 LOANS TO AN ASSOCIATE

Loans to an associate represent the entrusted loans lent to Yangmei Pingyuan which are unsecured, bear annual interest rate of 6.00% and is repayable within one year.

### 26 OTHER DEPOSITS

Other deposits represent principal-protected financial products issued by financial institutions in the PRC, which carried fixed interest rates from 2.23% to 4.20% (2013: 2.25% to 6.00%) per annum. Included in other deposits as at 31 December 2014, nil (2013: RMB325,000,000) was 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 27 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 rate is 0.35% (2013: 0.35% to 0.385%) per annum.

	As at 31 December	
	2014	2013
	RMB'000	RMB'000
Cash in hand	203	130
Cash at bank	462,687	363,652
	<b>462,890</b>	363,782

As at 31 December 2014, included in 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	
	2014	2013
	RMB'000	RMB'000
United States dollars ("US\$")	125,553	5,002

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 28 TRADE AND BILLS PAYABLES

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Trade payables	3,817,175	2,329,954
Bills payables	811,658	288,835
Trade and bills payables	<b>4,628,833</b>	2,618,789

As at 31 December 2014, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Within 3 months	4,345,265	2,424,658
More than 3 months but within 6 months	94,442	113,202
More than 6 months but within 12 months	133,071	32,908
Over 12 months	56,055	48,021
	<b>4,628,833</b>	2,618,789

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 29 OTHER PAYABLES AND RECEIPT IN ADVANCE

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Payroll payable	114,227	136,578
Consideration payable for acquisition of Sinochem Yunlong	230,000	230,000
Others	285,306	429,683
Other payables	629,533	796,261
Receipt in advance	3,253,223	2,774,012
Other payables and receipt in advance	<b>3,882,756</b>	3,570,273

### 30 INTEREST-BEARING BORROWINGS

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Bank loans, secured	144,411	–
Bank loans, unsecured	40,000	425,335
Borrowings from Sinochem Group	200,000	–
Bonds (note)		
Principal amount	2,500,000	2,500,000
Less: unamortized transaction costs	(11,515)	(13,865)
	<b>2,872,896</b>	2,911,470

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 30 INTEREST-BEARING BORROWINGS (continued)

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

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

	As at 31 December	
	2014 RMB'000	2013 RMB'000
Carrying amount repayable:		
Within 1 year	184,411	425,335
More than 1 years, but within 5 years	2,688,485	–
More than 5 years	–	2,486,135
	<b>2,872,896</b>	2,911,470
Less: Amounts due within 1 year shown under current liabilities	<b>(184,411)</b>	(425,335)
Amounts shown under non-current liabilities	<b>2,688,485</b>	2,486,135

**(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	
	2014 RMB'000	2013 RMB'000
Fixed-rate borrowings:		
Within 1 year	184,411	325,335
After 1 years but within 5 years	2,688,485	–
More than 5 years	–	2,486,135
	<b>2,872,896</b>	2,811,470



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 30 INTEREST-BEARING BORROWINGS (continued)

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

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

	As at 31 December	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Variable-rate borrowings:		
Within 1 year	–	100,000
	–	100,000

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:

	2014	2013
Fixed-rate borrowings	1.35%~5.12%	4.6%-6.63%
Variable-rate borrowings	–	0.97%-5.6%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 30 INTEREST-BEARING BORROWINGS (continued)

#### (c) Unutilized banking facilities

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Expiring within 1 year	10,304,163	7,996,998
Expiring beyond 1 year	11,610,318	19,874,318
	<b>21,914,481</b>	27,871,316

At 31 December 2014, certain property, plant and equipment and bills receivable with carrying values of approximately RMB25,704,000 and RMB144,411,000 (2013: RMB30,558,000 and nil) were pledged to secure banking facilities and borrowings granted to the Group.

### 31 SHORT-TERM COMMERCIAL PAPER

One of the Group's subsidiaries issued a one-year commercial paper of RMB1 billion in the PRC debenture market on 25 April 2013. This commercial paper bears fixed interest rate of 4.08% per annum and interests are paid annually. The Group has fully settled the short-term commercial paper on 25 April 2014.

### 32 DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES

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

	As at 31 December	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Deferred tax assets	198,559	337,172
Deferred tax liabilities	(246,755)	(259,082)
	<b>(48,196)</b>	78,090

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 32 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:

	Fair value adjustment on business combination <i>RMB'000</i>	Unrealized profits in inventories <i>RMB'000</i>	Impairments <i>RMB'000</i>	Tax losses <i>RMB'000</i>	Accumulated depreciation difference <i>RMB'000</i>	Other <i>RMB'000</i>	Total <i>RMB'000</i>
At 1 January 2013	(271,565)	6,388	27,274	630,524	11	10,288	402,920
Credit/(charge) to profit or loss for the year	12,691	(4,500)	4,879	(350,643)	141	12,602	(324,830)
At 31 December 2013	(258,874)	1,888	32,153	279,881	152	22,890	78,090
At 1 January 2014	<b>(258,874)</b>	<b>1,888</b>	<b>32,153</b>	<b>279,881</b>	<b>152</b>	<b>22,890</b>	<b>78,090</b>
Credit/(charge) to profit or loss for the year	<b>12,756</b>	<b>935</b>	<b>(15,767)</b>	<b>(124,738)</b>	<b>(252)</b>	<b>780</b>	<b>(126,286)</b>
<b>At 31 December 2014</b>	<b>(246,118)</b>	<b>2,823</b>	<b>16,386</b>	<b>155,143</b>	<b>(100)</b>	<b>23,670</b>	<b>(48,196)</b>

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 written down the carrying amount of deferred tax assets for RMB45,269,000 (2013: RMB351,403,000) during the year ended 31 December 2014 because the management assesses that it's no longer probable for the Group to make sufficient taxable profit to cover tax losses of RMB181,076,000 (2013: RMB1,405,612,000), which had expired at the end of 2014.

As at 31 December 2014, the Group has recognized deferred tax assets in respect of tax losses amounting to approximately RMB624,651,000 (2013: RMB1,119,524,000) that can be carried forward against taxable income in the coming five years.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 32 DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (continued)

#### (b) Deferred tax assets not recognized

No deferred tax assets were recognized on the tax losses of approximately RMB1,530,990,000 (2013: RMB1,233,035,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable, among which RMB31,256,000 unrecognized tax losses has expired during 2014. Included in the unrecognized tax losses are losses of RMB930,331,000 that will expire before 31 December 2019 (2013: RMB525,382,000 that will expire before 31 December 2018). 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 RMB149,720,000 (2013: RMB121,390,000) at 31 December 2014.

### 33 ISSUED EQUITY

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
At 1 January/At 31 December		
Issue of new shares of par value of HK\$0.10 each	<b>8,267,384</b>	8,267,384

The amount of issued equity of the Group as at 31 December 2013 and 2014, which includes share capital and share premium in the consolidated statement of financial position, represents:

- (i) due to the application of reverse acquisition basis of accounting during the year ended 31 December 2005, 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 HK\$285,363,000 of the reverse acquisition performed by the Group at the acquisition date; and
- (ii) the amounts of the issuance of new shares, shares upon exercise of share options and additional shares from conversion of the convertible loan notes since the year ended 31 December 2005, after deducting the costs of issuing the new shares.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 33 ISSUED EQUITY (continued)

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

	2014			2013		
	Number of shares '000	Nominal value HK\$'000	Equivalent to RMB'000	Number of shares '000	Nominal value HK\$'000	Equivalent to RMB'000
<b>Authorized:</b>						
Ordinary shares of HK\$0.10 each	80,000,000	8,000,000		8,000,000	80,000,000	
<b>Ordinary shares of the Company, issued and fully paid:</b>						
At 1 January/						
At 31 December	7,024,456	702,446	691,750	7,024,456	702,446	691,750
				<b>Number of shares</b>	<b>Nominal Value</b>	
					HK\$'000	
<b>Preference shares</b>						
Authorized:						
Preference shares of HK\$1,000,000 each				316	316,000	

No preference shares are issued at 31 December 2014 and 2013.

### 34 CAPITAL RISK MANAGEMENT

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 35 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:

	<b>Liabilities</b>		<b>Assets</b>	
	<b>2014</b>	2013	<b>2014</b>	2013
	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
US\$	<b>1,556,868</b>	571,126	<b>125,553</b>	5,002

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 35 FINANCIAL INSTRUMENT (continued)

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

#### Market risk (continued)

##### (i) Currency risk (continued)

##### Sensitivity analysis

The following table indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant.

	2014			2013		
	Increase/ (decrease) in Foreign Exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in Foreign Exchange rates	Effect on profit after tax and retained profits RMB'000	Effect on other components of equity RMB'000
US\$	10%	(143,131)	-	10%	(56,612)	-
	(10%)	143,131	-	(10%)	56,612	-

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis is performed on the same basis for 2013.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 35 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 30 for details of these borrowings) and other deposits. 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

Since the Group has no variable-rate borrowings at the end of the reporting period, the management considers that the Group is not sensitive to the change of interest rates. Accordingly, no sensitivity analysis about interest rate risk is prepared.

##### *(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 Stock Exchange of Hong Kong 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 35 FINANCIAL INSTRUMENT (continued)

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

#### **Market risk (continued)**

##### *(iii) Other price risk (continued)*

##### Sensitivity analysis (continued)

##### Available-for-sale investments

If the prices of the respective listed equity instruments had been 10% (2013: 10%) higher/lower:

- investment valuation reserve/impairment losses would increase by approximately RMB8,582,000 (2013: RMB9,141,000) 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 2014 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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 35 FINANCIAL INSTRUMENT (continued)

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

#### 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 2014, the Group has available unutilized bank loan facilities of approximately RMB21,914,481,000 (2013: approximately RMB27,871,316,000). Details are set out in note 30.

The following table details the Group's remaining contractual maturity for its financial liabilities. For financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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

	2014				Balance sheet carrying amount RMB'000
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	1-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Trade and bills payables	4,628,833	–	–	4,628,833	4,628,833
Other payables	629,533	–	–	629,533	629,533
Borrowings:					
– fixed rate	313,050	3,202,870	–	3,515,920	2,872,896
	5,571,416	3,202,870	–	8,774,286	8,131,262

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 35 FINANCIAL INSTRUMENT (continued)

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

#### Liquidity risk (continued)

	2013				Balance sheet carrying amount RMB'000
	Contractual undiscounted cash outflow				
	Within 1 year or on demand RMB'000	1-5 years RMB'000	More than 5 years RMB'000	Total RMB'000	
Trade and bills payables	2,618,789	–	–	2,618,789	2,618,789
Other payables	796,261	–	–	796,261	796,261
Borrowings and short-term commercial paper:					
– fixed rate	1,465,505	500,342	2,612,329	4,578,176	3,811,470
– variable rate	100,689	–	–	100,689	100,000
	4,981,244	500,342	2,612,329	8,093,915	7,326,520

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.

### (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 35 FINANCIAL INSTRUMENT (continued)

#### (b) Fair value (continued)

##### (i) Financial instruments carried at fair value (continued)

	31 December 2014			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Available-for-sale investments				
– Listed	85,818	–	–	85,818
– Unlisted	–	–	387,137	387,137
Financial liability				
– Forward exchange contracts	–	25,633	–	25,633

  

	31 December 2013			Total RMB'000
	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	
Listed available-for-sale investments	91,409	–	–	91,409

During the years ended 31 December 2013 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which the occur.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 35 FINANCIAL INSTRUMENT (continued)

### (b) Fair value (continued)

#### (i) Financial instruments carried at fair value (continued)

##### *Information about Level 3 fair value measurements*

The Group has performed valuations for the unlisted available-for-sale equity securities which are categorized into Level 3 of the fair value hierarchy annually. A valuation report, issued by qualified independent valuers, with analysis of changes in fair value measurement is prepared by the Company at the end of the reporting period.

	<b>2014</b> <b>RMB'000</b>
At 1 January	<b>280,383</b>
Net unrealized gains or losses recognized in profit and loss during the period	<b>106,754</b>
At 31 December	<b>387,137</b>

The gains arising from the disposal of the unlisted available-for-sale investments are presented in "other income and gains" in the consolidated statement of profit or loss and other comprehensive income. The net unrealized gains arising from the remeasurement of the unlisted available-for-sale investments are recognized in fair value reserve in other comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 35 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:

	2014		2013	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
Financial liabilities	2,488,485	2,484,615	2,486,135	2,484,615

#### (c) Estimation of fair values

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

##### (i) Trade and bills receivables and other receivables and advance payments

The fair value of trade and bills receivables 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.

##### (ii) 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.

##### (iii) Interest-bearing borrowings

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

##### (iv) Interest rates used for determining fair value

The Group uses the market rate of interest-bearing borrowings as of 31 December 2014. The interest rates used are disclosed in note 30.

### 36 CONTINGENT LIABILITIES

At 31 December 2014 and 2013, the Group had no material contingent liabilities.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 37 COMMITMENTS

### (i) Capital commitment

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Contracted but not provided for	<b>266,793</b>	373,729
– Property, plant and equipment		
Authorized but not contracted for		
– Property, plant and equipment	<b>609,617</b>	1,156,236
– Investments in an associate and others	<b>4,190,101</b>	–
	<b>5,066,511</b>	1,529,965

### (ii) Operating lease

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:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Within 1 year	<b>44,125</b>	37,510
More than 1 year, but within 5 years	<b>58,749</b>	12,378
Over 5 years	<b>1,944</b>	1,627
	<b>104,818</b>	51,515

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 38 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Group during the year ended 31 December 2014 and 2013 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)

Sinochem Quanzhou Petrochemical Co., Ltd. (“Quanzhou Petrochemical”)  
(中化泉州石化有限公司)

### A subsidiary of a shareholder with significant influence over the Company

PCS Sales (USA) Inc. (“PCS Sales”)

### Associates

Qinghai Salt Lake  
(青海鹽湖工業股份有限公司)

Xinxin Industrial  
(貴州鑫新工農貿易有限公司)

Xinchen Chemical  
(貴州鑫晨煤化工(集團)有限公司)

Yangmei Pingyuan  
(陽煤平原化工有限公司)

Tianjin Beihai  
(天津北海實業有限公司)

### Joint ventures

Sinochem Mosaic  
(雲南三環中化美盛化肥有限公司)

Three Circles-Sinochem  
(雲南三環中化化肥有限公司)

Gansu Wengfu  
(甘肅甕福化工有限責任公司)



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 38 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:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Sales of fertilizers to</b>		
Sinochem Group ( <i>note 1</i> )	65,611	44,682
Sinochem Mosaic	66,493	136,637
Three Circles-Sinochem	269,670	167,368
	<b>401,774</b>	348,687
<b>Purchases of fertilizers from</b>		
Sinochem Group ( <i>note 1</i> )	114,569	422,384
Qinghai Salt Lake	560,907	142,332
Three Circles-Sinochem	1,107,057	1,042,487
Gansu Wengfu	179,021	187,573
Xinxin Industrial	77,253	32,147
Sinochem Mosaic	22,519	63,277
PCS Sales ( <i>note 1</i> )	5,299	9,694
Quanzhou Petrochemical	6,942	–
Yangmei Pingyuan	299,068	1,240,832
	<b>2,372,635</b>	3,140,726
<b>Import service fee paid to</b>		
Sinochem Group ( <i>note 1</i> )	4,069	2,842
Sinochem (United Kingdom) Limited	14,048	12,382
	<b>18,117</b>	15,224
<b>Office rental fee paid to</b>		
Sinochem HK	4,241	4,529
Chemsunny Ltd.	20,258	18,473
	<b>24,499</b>	23,002
<b>Borrowings from Sinochem Group</b>		
Sinochem Group	–	200,000

*Note 1:* The transactions fall under definition of “continuing connected transaction” in Chapter 14A of the Listing Rules.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 38 RELATED PARTY TRANSACTIONS (continued)

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

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Other receivables</b>		
Chemsunny Ltd.	8,928	4,273
Sinochem HK	1,127	–
Yangmei Pingyuan	1,014	1,014
	<b>11,069</b>	5,287
<b>Advance payments</b>		
Gansu Wengfu	22,297	49,779
Qinghai Salt Lake	167,927	5,428
Yangmei Pingyuan	195	–
Quanzhou Petrochemical	1,858	–
	<b>192,277</b>	55,207
<b>Loans to an associate</b>		
Yangmei Pingyuan	<b>712,494</b>	889,296
<b>Trade payables</b>		
Sinochem Group	1,208,339	1,407,219
Three Circles-Sinochem	43,935	157,756
Yangmei Pingyuan	14,314	6,843
Xinxin Industrial	12,493	13,761
	<b>1,279,081</b>	1,585,579
<b>Other payables</b>		
Sinochem Group	446	200,000
Yangmei Pingyuan	–	47,675
	<b>446</b>	247,675
<b>Borrowings from Sinochem Group</b>		
Sinochem Group ( <i>Note 1</i> )	<b>200,000</b>	–

*Note 1:* Borrowings from Sinochem Group is borrowed with a maturity of 3 years at a fixed interest rate of 1.35% per annum.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 38 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)

	As at 31 December	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
<b>Receipt in advance</b>		
Sinochem Group	794	–
Sinochem Mosaic	6,726	11,672
	<b>7,520</b>	11,672

(c) **Compensation of key management personnel**

Key management personnel are the Company's directors and the Group's senior executives. Remuneration paid or payable to the directors was disclosed in note 10, and was determined by the Remuneration Committee according to individual performance and relevant comparable market statistics. Remuneration paid or payable to senior executives is as follows:

	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Salaries and other benefits	4,133	4,009
Performance related incentive payments	3,878	–
Retirement benefits scheme contribution	248	211
	<b>8,259</b>	4,220

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

### 38 RELATED PARTY TRANSACTIONS (continued)

#### (c) Compensation of key management personnel (continued)

The emoluments of senior executives were within the following bands:

	2014 <i>Number of individuals</i>	2013 <i>Number of individuals</i>
Nil to HK\$1,000,000	1	7
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$1,500,001 to HK\$2,000,000	3	–
HK\$2,000,001 to HK\$2,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	–	–
HK\$3,000,001 to HK\$3,500,000	–	–
	<b>7</b>	<b>7</b>

#### (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 Chinese government (“government-related entities”). In addition, the Group itself is part of a larger group of companies under Sinochem Group which is controlled by Chinese 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.

	<b>As at 31 December</b>	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Trade and bills receivables	53,877	21,166
Other receivables and advance payments	248,616	403,397
Trade and bills payables	81,949	142,027
Other payables and receipt in advance	355,632	57,430

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 38 RELATED PARTY TRANSACTIONS (continued)

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

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

	<b>2014</b> <i>RMB'000</i>	2013 <i>RMB'000</i>
Sales of fertilizers	<b>5,350,603</b>	8,039,808
Purchases of fertilizers	<b>5,744,361</b>	8,872,133

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.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2014 and 2013:

Name of subsidiaries	Place of incorporation/ registered	Nominal value of issued capital/ registration capital	Proportion ownership interest held by the Group		Principal activities
			2014	2013	
<b>Directly held:</b>					
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
<b>Indirectly held:</b>					
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	US\$10,002	100%	100%	Investment holding
Sinochem Fertilizer (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
Suifenthe 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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation/ registered	Nominal value of issued capital/ registration capital	Proportion ownership interest held by the Group		Principal activities
			2014	2013	
<b>Indirectly held: (continued)</b>					
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 (note c) (中化雲龍有限公司)	The PRC	RMB500,000,000	100%	100%	Sales and manufacturing of feeds stuff
Sinochem Yantai Crop Nutrition Co., Ltd. (note b) (中化(煙台)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) (滿洲裡凱明化肥有限公司)	The PRC	RMB5,000,000	100%	100%	Fertilizer trading
Sinochem Jilin Changshan Chemical Co., Ltd. (note c) (中化吉林長山化工有限公司)	The PRC	RMB1,018,650,000	94.78%	94.78%	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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 39 PRINCIPAL SUBSIDIARIES (continued)

Name of subsidiaries	Place of incorporation/ registered	Nominal value of issued capital/ registration capital	Proportion ownership interest held by the Group		Principal activities
			2014	2013	
<i>Indirectly held: (continued)</i>					
Sinochem Hainan Crop Science and Technology. (note c) (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

Note a: Foreign invested enterprise

Note b: Sino-foreign enterprise

Note c: Domestic company

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.

The directors of the Company are of the opinion that none of its subsidiaries has non-controlling interests material to the Group.

## 40 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 41 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:

	As at 31 December	
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>
Investments in subsidiaries	<b>6,024,697</b>	6,001,190
Amount due from subsidiaries	<b>5,838,020</b>	5,838,163
Bank balances and cash	<b>1,847</b>	5,079
Other current assets	<b>788,197</b>	706,037
Total assets	<b>12,652,761</b>	12,550,469
Other current liabilities	<b>10,022</b>	8,579
Total equity	<b>12,642,739</b>	12,541,890

# FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Turnover	<b>28,311,086</b>	34,721,849	41,190,137	36,684,963	29,271,077
Profit/(Loss) before tax	<b>272,122</b>	(281,382)	1,022,365	836,501	482,862
Income tax expense	<b>(136,700)</b>	(343,424)	(98,711)	(150,717)	(481)
Profit/(Loss) for the year	<b>135,422</b>	(624,806)	923,654	685,784	482,381
Profit/(Loss) attributable to:					
– Owners of the Company	<b>229,339</b>	(476,340)	878,369	677,968	535,711
– Non-controlling interests	<b>(93,917)</b>	(148,466)	45,285	7,816	(53,330)
	<b>135,422</b>	(624,806)	923,654	685,784	482,381
	At 31 December				
	2014 <i>RMB'000</i>	2013 <i>RMB'000</i>	2012 <i>RMB'000</i>	2011 <i>RMB'000</i>	2010 <i>RMB'000</i>
Total assets	<b>25,210,984</b>	23,829,283	26,409,804	28,398,490	25,444,563
Total liabilities	<b>(11,828,696)</b>	(10,536,306)	(12,287,171)	(15,029,607)	(12,510,529)
Net assets	<b>13,382,288</b>	13,292,977	14,122,633	13,368,883	12,934,034

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