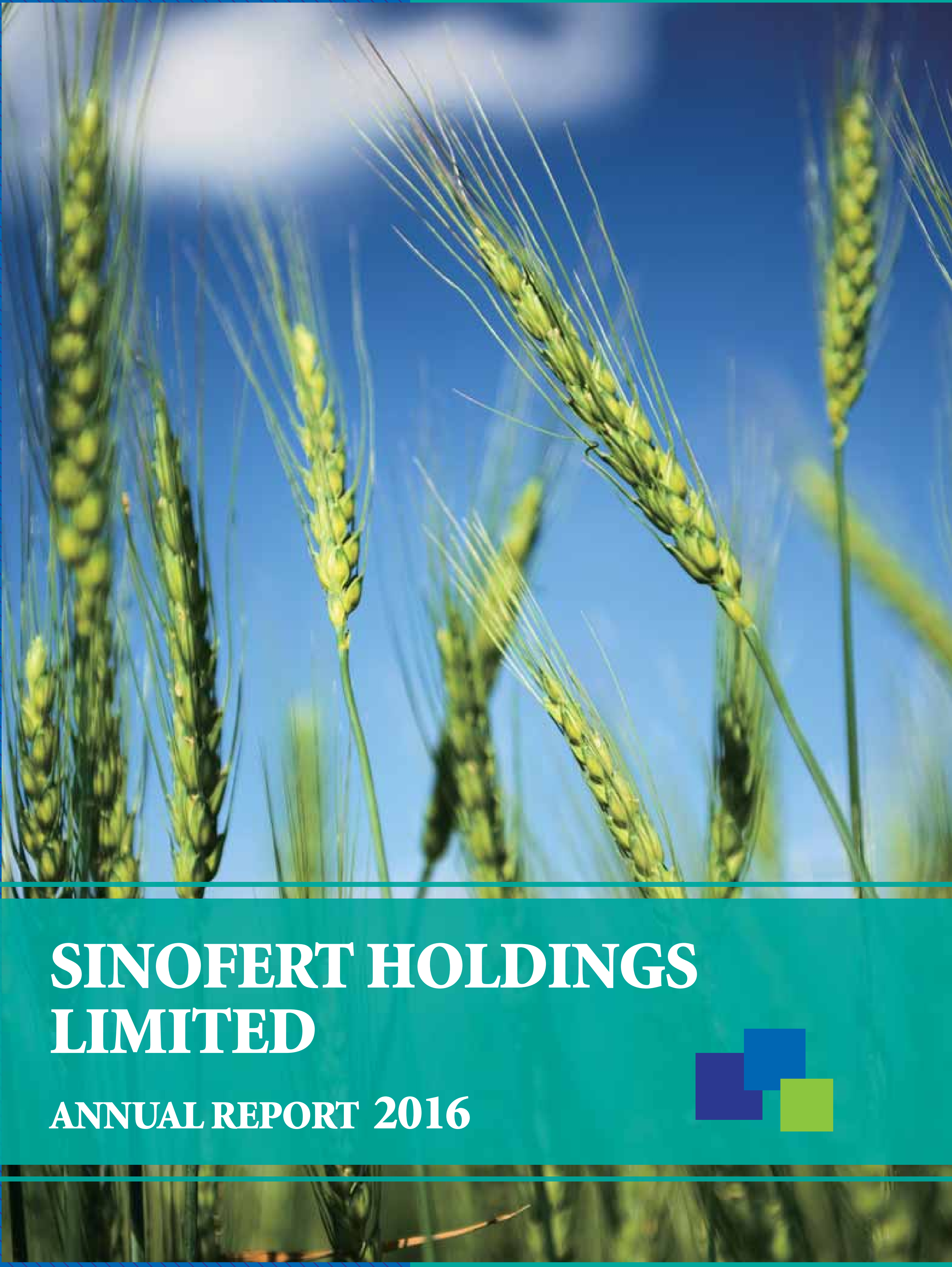
中化化肥控股有限公司

SINOFERT HOLDINGS LIMITED

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

NURTURING CHINA'S AGRICULTURE SECTOR

ANNUAL REPORT 2016



SINOFERT HOLDINGS LIMITED

ANNUAL REPORT 2016

CONTENTS

COMPANY PROFILE AND CORPORATE INFORMATION

COMPANY PROFILE

Sinofert Holdings Limited (the "Company") successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries in July 2005, and became a listed company (Stock code: 297) on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). 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 and retail of fertilizer raw materials and finished products, provision of technological research and development and services relating to the fertilizer business and products, exploration and exploitation of phosphate mine, and production of monocalcium/monodicalcium phosphate.

Benchmarked by the turnover of 2016, the Group is:

- one of 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;
- its comprehensive agrichemical service system directly reaching the farmers;
- one of the largest phosphate resource owners in China and one of the largest feed-grade calcium hydrogen phosphate manufacturers in Asia.

The Group strives to become China's most competitive comprehensive service provider of modern agriculture. 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 26th time by ranking the 139th in 2016. 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. ZHANG Wei *(Chairman)*
(appointed on 8 December 2016)

Executive Directors

Mr. QIN Hengde *(Chief Executive Officer)*
(appointed on 8 December 2016)
Mr. Harry YANG

Non-Executive Directors

Mr. YANG Lin
Dr. Stephen Francis DOWDLE
Ms. XIANG Dandan

Independent Non-Executive Directors

Mr. KO Ming Tung, Edward
Mr. LU Xin
Mr. TSE Hau Yin, Aloysius

Members of Committees

Audit Committee

Mr. TSE Hau Yin, Aloysius *(Chairman)*
Mr. KO Ming Tung, Edward
Mr. LU Xin

Remuneration Committee

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

Nomination Committee

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

Corporate Governance Committee

Mr. QIN Hengde *(Chairman)*
(appointed on 8 December 2016)
Mr. Harry YANG
Ms. CHEUNG Kar Mun, Cindy
Ms. CAO Jing (appointed on 3 June 2016)

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

COMPANY PROFILE AND CORPORATE INFORMATION

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Principal Place of Business

Units 4705, 47th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Share Registrars and Transfer Offices

Bermuda (Principal office)
Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Hong Kong (Branch)
Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Company Website

www.sinofert.com

Share Listing

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

Investor Relations

Hong Kong

Telephone	:	(852) 3656 1588
Fax	:	(852) 2850 7229
Address	:	Unit 4705, 47th Floor Office Tower, Convention Plaza 1 Harbour Road Wanchai, Hong Kong

Beijing

Telephone	:	(10) 5956 9358
Fax	:	(10) 5956 9095
Address	:	Level 10, Central Tower Chemsunny World Trade Centre 28 Fuxingmennei Street Beijing 100031, PRC

FINANCIAL HIGHLIGHTS

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

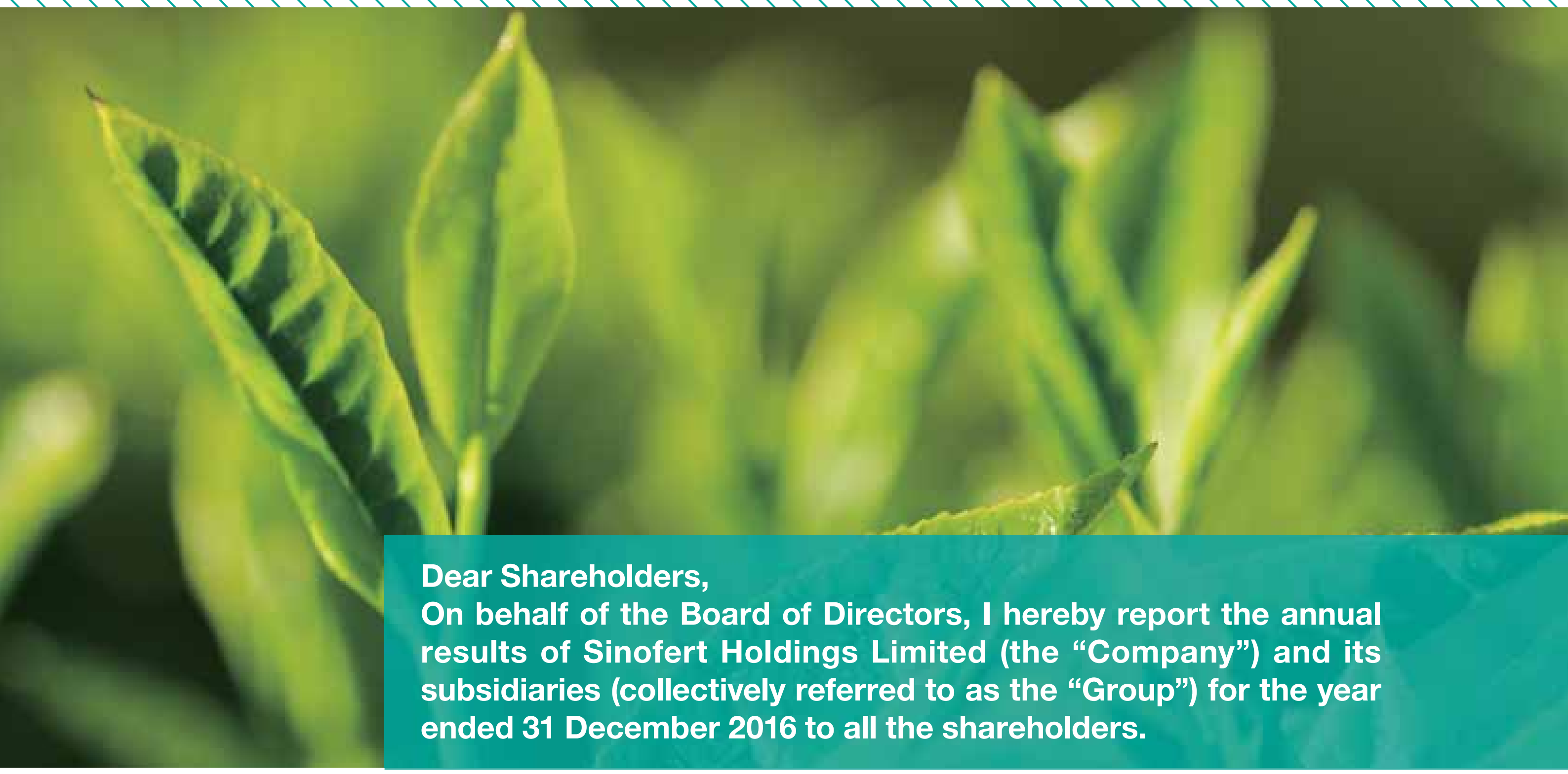
	2016	2015
Sales volume *(in 10,000 tons)*	**913**	1,304
Turnover	**14,959,092**	26,121,488
Gross profit	**241,162**	1,669,088
(Loss)/Profit before taxation	**(4,817,805)**	350,149
(Loss)/Profit attributable to owners of the Company	**(4,635,885)**	220,855
Basic (losses)/earnings per share *(RMB)*	**(0.6600)**	0.0314
Return on equity *(Note 1)*	**(43.26%)**	1.70%
Debt to equity ratio *(Note 2)*	**72.96%**	47.98%

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

CHAIRMAN'S STATEMENT

Growing With China's Modern Agriculture



Dear Shareholders,
On behalf of the Board of Directors, I hereby report the annual results of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2016 to all the shareholders.

In 2016, China's fertilizer industry was in an extraordinarily severe situation as oversupply and increasingly intensified competition continued to prevail in the market. Selling price of various fertilizers remained sluggish throughout the year, falling to record lows ever seen in recent years. Preferential policies towards the fertilizer sector had been gradually abolished, and the resumption of value-added tax had significantly dampened fertilizer imports. The falling prices of farm produce also impeded the enthusiasm of farmers in fertilizer spending. Facing such challenges, the Group remained steadfast in carrying out its strategies made out at the beginning of the year, and adopted preemptive counter measures to alleviate difficulties. During the reporting period, the Group recorded a total sales volume of 9.13 million tons, down by 30% year on year; and total sales revenue of RMB15 billion, down by 43% year on year. Meanwhile, the amount of RMB3,194 million in write-down of long-term assets was reported for prudent purpose. Loss attributable to owners of the Company was RMB4,636 million, or basic losses per share RMB0.6600. Excluding the above write-down of long-term assets, loss attributable to owners of the Company was RMB1,442 million. Key indicators of the Group's performance remained under control.

Facing such a grim market environment, the Board sticks to the goal of maximizing shareholder value, continuously improving corporate governance and optimizing the management system. In accordance with the Corporate Governance Practices of The Stock Exchange of Hong

Kong Limited, the Company's Board of Directors held four regular meetings in 2016 at which the Company's annual report, interim report, strategic planning and major investment projects were reviewed and approved. Meanwhile, the Board also reviewed other issues such as major investments and connected transactions. The Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee had all fulfilled their respective duties and rights as entrusted by the Board on such issues as improving internal control and risk management, optimizing the remuneration and motivation system and perfecting corporate governance structure.

Adapting to changeable market environments, the Group will follow the course of agricultural reform, strive to meet the demands of the customers, push forward internal re-structuring, focus on distribution network building, make enhanced efforts in R&D and provide high-efficiency fertilizer products and specialized services to the farmers, and constantly sharpen the cutting edge in comprehensive servicing capabilities so as to achieve a stable and sustainable growth for the Company. More specifically, the Group will reform its business model, improve market analyzing, upgrade the strategic cooperation relationship with suppliers, enhance strategic procurement capabilities, and expand marketing efforts in combo package sales to industrial customers. We will re-adjust corporate resources to center on distribution business to achieve rapid growth, and make more efforts in scientific and technological innovation to cultivate long-term growth potentials. In addition, we will strive to upgrade production management systems, re-define the Group's positioning in the industry, and ensure substantial reduction in losses in the production enterprises while enhancing and optimizing compound fertilizer and specialty fertilizer production capabilities. The Group will carry out internal re-structuring by spinning off redundancy and streamlining administration in the aim of centering on business operations. A market-oriented motivation mechanism will be established to thoroughly break the "big-pot rice" compensation system so as to revitalize the work enthusiasm of the business teams.

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.

Zhang Wei
Chairman of the Board

Hong Kong, 30 March 2017

MANAGEMENT REVIEW AND PROSPECT

MANAGEMENT REVIEW AND PROSPECT

Business Environment

In 2016, the world economy was still undergoing deep adjustment while the Chinese economy maintained an overall stable performance and yet witnessed slower growth. After the Chinese economy entered the new normal, to promote supply-side structural reform will be a major task for the near future.

During the reporting period, agricultural production in China saw a steady development and grain output was still above 600 million tons despite a year-on-year decrease. China's structural contradictions related to agriculture was increasingly prominent, and the phenomenon of high inventory, high import and high cost in the domestic grain market persisted. Against such background, under the principle of improving quality, enhancing efficiency, transforming development pattern and stablizing grain output, increasing farmers' income and maintaining sustainability, China focused on pushing forward the agricultural supply-side structural reform, and major policies were launched, including the agricultural planting structure adjustment, reform of the agricultural subsidy system, grain purchasing & storage policy reform and reform of rural land system. The agricultural reform has a profound impact on the fertilizer industry and the latter will be faced with huge pressure from transformation and upgrading as well as reform and development.

In the year 2016, global fertilizer demand experienced a slower growth and the fertilizer consumption in China came close to zero increase for the first time. However, China's oversupply situation was still rather severe and both the import and export of fertilizers declined. The profitability of the fertilizer industry continued to deteriorate, the extent of loss in the nitrogen industry was enlarged and the overall profitability of phosphates, potash and compound fertilizers shrank. In the face of such grave situation, domestic enterprises sped up their transformation and upgrading, actively developed towards the upstream and downstream of the supply chain and the Group was confronted with a relatively big pressure of competition.

With a slow recovery of the global economy, in order to effectively meet the dire market challenges and ensure the Company's leading position in the fertilizer industry, the Group, under the leadership of the Board, continued to deepen strategic transformation and carry out reforms and was committed to becoming the most competitive comprehensive service provider of modern agriculture in China.

Financial Highlights

For the year ended 31 December 2016, the Group's turnover amounted to RMB14,959 million, down by 42.73% year on year. Loss attributable to owners of the Company amounted to RMB4,636 million.

.

Resource Guarantee

In 2016, Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary of the Group, continued to take advantage of its high-quality phosphate rock resource, optimized its phosphate mine development plan and extracted 350,000 tons of phosphate rock. For mine construction, Sinochem Yunlong initiated the extraction of the 600,000 tons/year Mozushao project, built a mechanized, automated and intelligent mine with information technology by introducing advanced equipment such as underground scrapers, ensured the sustainability of the resources, and constantly expanded the advantages in phosphate resources in order to further support the sustainable development of the Group's phosphate and phosphoric chemical industries.

The Group holds 20.52% equity interest in the largest potash producer in China – Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake"), which has the exploration rights in China's biggest potash mine – Qarhan Salt Lake. Qarhan Salt Lake is the biggest soluble potassium and magnesium salt mine in China, with over 60 billion tons of total reserves of various salts, including more than 540 million tons of potassium chloride. Besides, with the implementation of the zero growth policy regarding fertilizer consumption in China, the Group also paid close attention to investment and acquisition opportunities in compound fertilizers as well as new type fertilizers with big growth potential.

Manufacturing

In 2016, the total annual fertilizer production capacity of the Group's subsidiaries, associates and joint ventures exceeded 15 million tons. By continuing to promote the basic work in production enterprises, carrying out cost management, lean management, centralized procurements and quality management, promoting technical reform, process optimization, scientific innovation and automation building, implementing cost reduction and efficiency increase, further tapping the potential of the existing equipment, the production and operation efficiency of the subsidiaries was enhanced.

Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, produced 1.12 million tons of phosphate, compound fertilizers and other products in 2016. Sinochem Fuling actively increased income and reduced expenditures, reduced cost and increased efficiency, adjusted the product mix, paid high attention to internal management, implemented environmental protection management and lowered the corporate management cost in order to ensure its steady production and operation.

Due to the unstable operation of its equipment, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, produced only 190,000 tons of urea and compound fertilizers in 2016. Sinochem Changshan adjusted the product structure, promoted the upgrading and reform of the process, equipment and technology, tapped into its own potential, improved the competitiveness of the equipment and pushed forward the operation of compound fertilizers by taking into consideration its locality advantages.

Sinochem Yunlong produced a record high of 306,200 tons of Monocalcium/Dicalcium Phosphate (MDCP) in 2016. Sinochem Yunlong adhered to internal management improvement, enhanced quality and efficiency, continued to push forward cost and consumption reduction and increased production efficiency. At the same time, Sinochem Yunlong strengthened process management, promoted quality enhancement and intensified the whole-process quality management. The average first acceptance rate in 2016 was above 99.6% and the product quality reached an internationally advanced level.

Marketing Services

According to the characteristics of China's agriculture and through system reform and mode innovation, the Group continuously consolidated the operation foundation. The product sales for the year 2016 reached 9.13 million tons, and the Group still maintained its market position and influence.

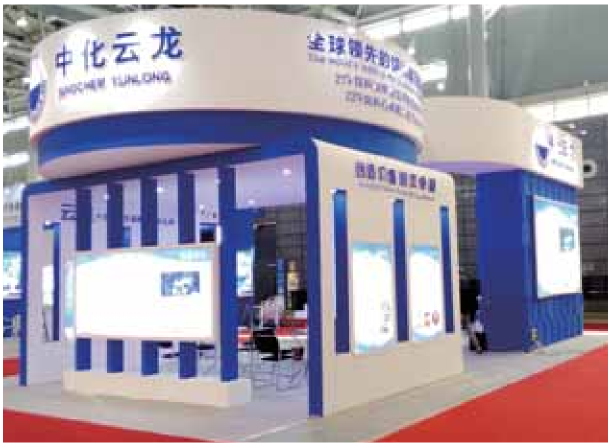
Potash Operations: Sales volume of potash fertilizer amounted to 2.07 million tons in 2016. The Group strengthened strategic cooperation with core suppliers and acquired high-quality products from both at home and abroad; deepened the channel marketing of potash for agriculture, built self-owned brands of potash for agriculture, enriched the product operation system, actively streamlined the customer base, tapped the potential demand of end users and stablized the sales of potash for agriculture; expanded the core customer system for industrial potash, coordinated with large and medium-sized customers in various regions, strengthened market analysis, boosted the sales of industrial potash and enhanced the market influence; continued to step up strategic cooperation with Qinghai Salt Lake and enhanced the influence of domestic potash in regions where the Group is the exclusive agency; constantly strengthened innovation in the product management model, explored new core competitiveness and consolidated the Group's leading position in the potash trading area.

Nitrogen Operations: Sales volume of nitrogen fertilizer amounted to 2.51 million tons in 2016. The overall scale of nitrogen operation was maintained. The Group continued to strengthen the supplier system building and consolidated cooperation with core suppliers, improved resources supply capacity, and strengthened the foundation of cooperation; controlled risks and achieved stable profit by controlling open-end products and accelerating direct sales when the market continued to be sluggish; improved the contribution of sales volume and profit of industrial nitrogen, and maintained a stable sales volume and profit in ammonium chloride; and sped up new products development and cultivation and further improved the contribution of sales volume and profit of urea coated with seaweed polysaccharides.

Phosphate Operations: Sales volume of phosphate fertilizer amounted to 1.80 million tons in 2016. Through scale operation and centralized procurement, the Group ensured steady supply of high-quality products and gained sound profit from procurement. The Group also received profit from sales through marketing services and market analysis, enhanced the brand influence and realized steady profit and the improvement of customer value.

Compound Fertilizer Operations: Sales volume of compound fertilizers amounted to 1.65 million tons in 2016. The Group continued to push forward the improvement of the compound fertilizer business operation, the creation of flagship products, channel expansion and service upgrading. Through further structural adjustment and optimization, the Group strengthened the coordination on production and marketing and increased the operation and management efficiency of the supply-chain system; through successful transformation of several technological achievements resulted from constant research and development, differentiated flagship products such as chelated fertilizer were launched and the core competitiveness of the products was continuously enhanced; while continuing to consolidate the distribution network, the Group effectively integrated and optimized the existing brands and channels, strengthened the carrying capacity of marketing in existing channels and attracted more and more high-quality customers in the industry; the Group upgraded the means of agricultural services, strengthened the ability to serve the whole process of planting and had a relatively big influence on new agricultural operation entities.

Monocalcium/Dicalcium phosphate (MDCP) Operations: Sinochem Yunlong strengthened production and sales coordination, explored domestic and international markets, carried out sea-rail combined transportation, optimized logistics, reduced the transportation cost, enhanced the competitiveness of its products and better served the demand of customers both at home and abroad. Sales volume of MDCP amounted to 300,000 tons in 2016, a constant increase year on year. Meanwhile, the brand switch was successful and independent management was realized.



In 2016, the Group continued to develop the distribution network, cooperated with high-quality customers, increased the number of its outlets at the township level, introduced product portfolio and marketing services and gradually built an efficient agricultural distribution system. At the same time, the Group also promoted the upgrading of marketing services in its branches, centred on potash for agriculture, agricultural DAP and compound fertilizers, constantly optimized the structure of distribution network, enhanced the marketing and service capability of business personnel, increased the number of service providers for the distribution network and built a professional and efficient service team. Besides, the Group made full use of governmental and social resources, actively participated in the implementation of China's agricultural strategy, maintained long-term cooperation with the Department of Crop Production, Ministry of Agriculture, signed agreements with the National Agricultural Technology Extension and Service Center, jointly built pilot demonstration fields, strived to provide strong technological support for the agricultural restructuring, income increase of farmers and agricultural efficiency improvement so as to open up a new path for China's fertilizer industry.

Internal Control and Management

The Group's internal control and risk management system was built according to the "Internal Control – Integrated Framework" published by the Committee of Sponsoring Organizations of the Treadway Commission (hereinafter referred to as "COSO") in the United States and the "Internal Control and Risk Management – A Basic Framework" issued by the Hong Kong Institute of Certified Public Accountants, and was in reference to the "Basic Rules of the Enterprise Internal Control" and its referencing guidelines issued by five ministries and commissions of China's central government. Under the principle of "high priority, daily monitoring and mainly diverting", the Group improved the operation mechanism of the risk and internal control committee and brought into full play the risk and internal control committee's decision-marking role regarding major risk matters, regularly conducted risk identification, assessment and response, implemented a whole-process risk alarming management mechanism and adopted corresponding measures for material risks. In 2016, by creating universal risk culture at different levels through various channels, improving the internal control manual so as to promote the optimization of business processes, strengthening

the allocation and utilization efficiency of credit resources, carrying out special monitoring and evaluation on entities with prominent problems of overdue payment, improving the management means for inventory risk and enhancing the risk management awareness among the personnel, the Group further carried out the internal control system building and consolidated the fundamental work and met the compliance requirements from the domestic and overseas regulatory organizations. The above efforts provided reasonable protection for the Group to cope with the changing market and operational environment, serve its strategic transformation and ensure the shareholders' interests, asset safety, business performance and strategic implementation.

Corporate Social Responsibility

The Group actively brought into play its influence and leading status in the industry, directly provided agricultural inputs to the grass-root level and ensured steady supply of products through its comprehensive agricultural inputs distribution and service network covering above 95% of China's arable land during the key period of spring planting season and field management. In 2016, the Group focused on free soil testing service, field guidance, seminars for farmers, and anti-counterfeiting and together with the National Agricultural Technology Extension and Service Center, built pilot demonstration fields and launched training programs for new occupational farmers. By the end of 2016, more than 20,000 activities were carried out, including over 6,000 filed guidance and soil testing and formula fertilizer activities, over 6,000 anti-counterfeiting activities, over 3,000 training programs for farmers, over 1,000 demonstration seminars, more than 2,000 pilot demonstration fields were built and more than 30,000 copies of promotional materials were distributed, which benefited more the 1,000 villages and towns and over 2 million farmers.

In 2016, Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer"), a subsidiary of the Group, deepened its cooperation with the Department of Crop Production, Ministry of Agriculture and the National Agricultural Technology Extension and Service Center, focused on the implementation of fertilizer application reduction and other projects, explored new mode of scientific fertilization and actively fulfilled its social responsibility. Sinochem Fertilizer launched large-scale demonstration field tours of formula fertilization in provinces such as Anhui, Shandong and Hainan, explored a new mechanism for the cooperation between the Ministry of Agriculture and enterprises, brought into full play the role of new operation entities and provided impetus for fertilizer application reduction and efficiency improvement through demonstration; and coordinated with local agricultural technology extension centers to promote advanced application technology and production model and led farmers to use new products and new technology.

In 2016, the Group fulfilled its corporate social responsibility, carried out the "Spring Breeze Action" by taking more than 100 targeted measures in poverty alleviation, launched poverty alleviation activities in Ar Horqin Banner and Linxi County of Inner Mongolia, Changfeng County of Anhui Province and Xundian County of Yunnan Province, donated more than RMB1 million worth of fertilizer and application equipment to help local farmers dealing with the difficulty of being unable to plant or purchase fertilizers due to natural disasters.

In the future, the Group will continue to focus on the requirement of modern agriculture development and strive to serve farmers, center on the goal of fertilizer and pesticide application reduction, deepen the cooperation with the Chinese government, scientific institutions, colleges and universities, put emphasis on key projects such as scientific fertilization, integration of water and fertlizer and new farmers' training, 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 Chinese farmers.

The Group continued to strengthen health, safety and environment ("HSE") management, built a professional HSE team, strengthened the HSE system building and training in the headquarters and relevant key subsidiaries, ensured the combination with the enterprises' production operation and sustainable development and constantly promoted the rectification of potential safety hazards. The four compulsory indicators were all reduced in 2016. In particular, the emissions of SO_2, COD, NH_3-N and NOx was down by 24.43%, 68.46%, 63.09% and 25.78%, respectively.

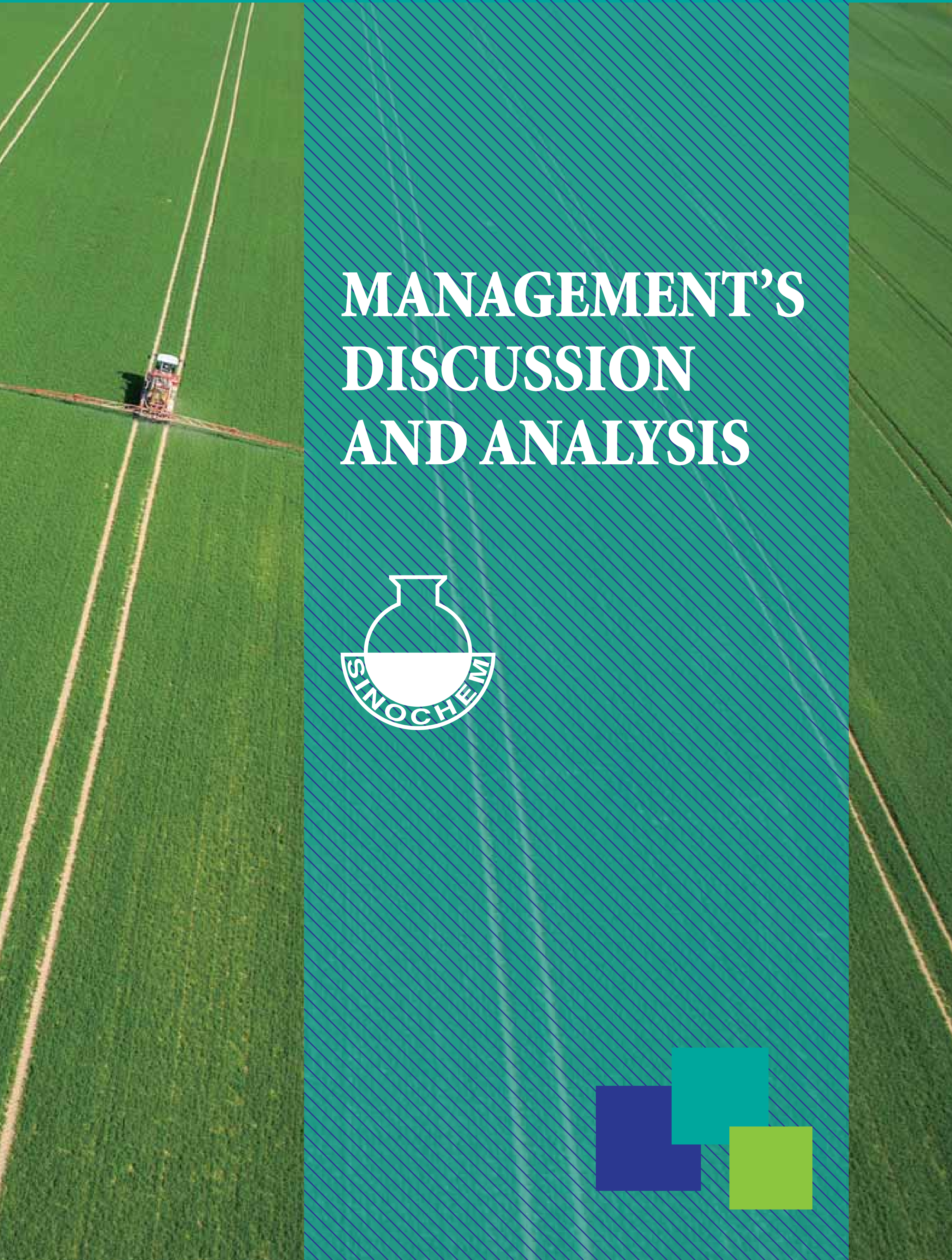
Outlook

Against the background of a prolonged global economic slump and frequent occurrence of political and economic black swan events, China's economic trend will be "L-shaped" for quite some time to come. The Chinese government will continue with the policy of making progress while ensuring stability, persistently push forward the supply side reform, maintain the continuity and stability of macro policies and realize sustainable and steady economic and social development.

The No. 1 Document of the Chinese central government in 2017 continues to focus on agriculture, rural areas and farmers and considers the promotion of agricultural supply-side structural reform as the main track of the agriculture and rural work at the new historic stage. Great changes have taken place in the current internal and external environment for agricultural development, new conflicts and new problems have emerged, the major conflict has transformed from insufficiency in total amount to structural conflict and the conflict mainly lies in the supply side. The Chinese government requires active exploration in mode transfer, structure readjustment and further reform of agriculture so as to lay a solid foundation for further promotion of agricultural transformation and upgrading. Agriculture should transform from the current overdependence on resource consumption and mainly meeting the quantity requirement to the pursuit of green, ecological and sustainable development and mainly meeting the quality requirement and the goal of more efficiency for agriculture, better income for farmers and more green areas for rural areas should be achieved.

China's modern agriculture is still in the early stages of development, the oversupply situation on the fertilizer market still persists and the depression of the fertilizer market has brought heavy pressure on fertilizer enterprises. However, with the implementation of agricultural supply-side reform, there will be great room for improvement in soil testing and formula fertilization, the integration of water and fertilizer and the application of new fertilizers. As a Chinese leading fertlizer enterprise, the Group will take on the heavy task of promoting China's modern agriculture and the sound development of the fertilizer industry. While consolidating and improving the basic fertlizers distribution, the Group will rely on the differentiated compound fertilizers and specialty fertilizers, speed up and strengthen the building of distribution capacity, create a strong distribution system, enhance the comprehensive service capability for end-users and provide high-quality agrichemical products and service for farmers in China. Meanwhile, the Group will also further create value for the shareholders through structural reform, resource integration, internal control optimization, operation efficiency enhancement and overall competitiveness reinforcement.

MANAGEMENT'S DISCUSSION AND ANALYSIS



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2016, sales volume of the Group was 9.13 million tons and revenue was RMB14,959 million, down by 29.98% and 42.73%, respectively, over the corresponding period in the previous year.

For the year ended 31 December 2016, gross profit of the Group was RMB241 million, down by 85.56% over the corresponding period in the previous year; loss attributable to owners of the Company was RMB4,636 million. Excluding the impairment loss on property, plant and equipment and impairment loss on interests in an associate, the Company suffered a loss of RMB1,442 million.

I. OPERATION SCALE

1. Sales Volume

For the year ended 31 December 2016, sales volume of the Group was 9.13 million tons, down by 29.98% over the corresponding period in 2015. In 2016, the fertilizer market remained weak and oversupplied, which resulted in the decline of sales volume of major fertilizers compared to the previous year. The sales of domestically produced fertilizers amounted to 6.22 million tons, down by 24.70% year on year. Affected by falling imports of potash, sales volume of imported fertilizers was 2.91 million tons, down by 21.35% year on year.

In terms of product mix, the drop in price of agricultural products led to falling demand for fertilizers and escalated the contradiction between supply and demand. As a result, sales volume of compound fertilizers, potash, nitrogen and phosphate declined by 30.08%, 24.45%, 44.35% and 23.40%, respectively year on year. 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 vigorously promoting differentiated products.

2. Turnover

For the year ended 31 December 2016, the turnover of the Group amounted to RMB14,959 million, decreased by RMB11,162 million or 42.73% year on year. The decrease rate of the turnover was higher than that of sales volume (29.98%), which was mainly attributable to the resumption of value-added tax and a sluggish market. The selling price of fertilizer products continued to decrease and the average selling price decreased by 18.21% year on year.

Table 1:

	For the year ended 31 December			
	2016		2015	
	Turnover *RMB'000*	**As percentage of total turnover**	Turnover *RMB'000*	As percentage of total turnover
Potash fertilizers	**3,629,552**	24.26%	5,846,791	22.38%
Nitrogen fertilizers	**2,610,677**	17.45%	6,481,523	24.81%
Compound fertilizers	**3,981,643**	26.62%	6,485,623	24.83%
Phosphate fertilizers	**3,371,433**	22.54%	5,678,588	21.74%
MCP/MDCP	**775,542**	5.18%	776,999	2.97%
Others	**590,245**	3.95%	851,964	3.27%
Total	**14,959,092**	100.00%	26,121,488	100.00%

3. Turnover and Results 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 result by operating segment for the year ended 31 December 2016 and for the year ended 31 December 2015:

Table 2:

2016

	Marketing *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Turnover				
External sales	**13,423,666**	**1,535,426**	**–**	**14,959,092**
Inter-segment sales	**762,827**	**2,068,834**	**(2,831,661)**	**–**
Total	**14,186,493**	**3,604,260**	**(2,831,661)**	**14,959,092**
Segment gross profit	**137,487**	**103,675**	**–**	**241,162**
Segment loss	**(507,005)**	**(3,830,487)**	**–**	**(4,337,492)**

2015

	Marketing *RMB'000*	Production *RMB'000*	Eliminations *RMB'000*	Total *RMB'000*
Turnover				
External sales	24,338,972	1,782,516	–	26,121,488
Inter-segment sales	1,321,926	3,618,542	(4,940,468)	–
Total	25,660,898	5,401,058	(4,940,468)	26,121,488
Segment gross profit	1,096,495	572,593	–	1,669,088
Segment profit/(loss)	534,937	(2,047)	–	532,890

Segment profit/(loss) represents the profit/(loss) earned by each segment without taking into account unallocated expenses and income, share of results of associates and 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 year ended 31 December 2016, the external sales turnover decreased by RMB11,162 million over 2015, which was attributable to decreases in the sales volume and selling price due to oversupply in domestic fertilizer market.

For the year ended 31 December 2016, the segment loss of the Group was RMB4,337 million, among which, Marketing Segment suffered a loss of RMB507 million while making a profit of RMB535 million in 2015, which was due to the resumption of value-added tax and weak fertilizer market. In addition, Production Segment suffered a loss of RMB3,830 million, declined from a loss of RMB2 million of the previous year as a result of declining real economy and the excess capacity, the pressure of enterprise competition intensified, and the operating pressure of production enterprises was constantly growing under the policy of zero-growth in fertilizer consumption and increasing pressure from environmental protection regulations. In addition, for prudent purpose, the Group recognized RMB3,194 million impairment loss on property, plant and equipment and interests in an associate.

II. PROFIT

1. Gross profit

For the year ended 31 December 2016, gross profit of the Group amounted to RMB241 million, decreased by RMB1,428 million over 2015.

The Group undertook different strategies for different products. In terms of potash, although the Group strengthened strategic partnership with core domestic and overseas suppliers, and secured constant and steady supply of competitive products, the gross profit decreased by 138% year on year as a result of the market downturn, fierce competition and sharp declines in prices; in terms of phosphate and nitrogen, the gross profit decreased by 88% and 97% respectively year on year, which was attributable to oversupply, the decrease in sales volume and price, and much higher cost compared with selling price; in terms of compound fertilizers, the gross profit decreased by 55% year on year due to falling prices, although the Group continuously promoted in-depth marketing, and took full advantage of the integration of production, supply and marketing.

In summary, the sluggish fertilizer market led to the decline in profit scale during the reporting period. Facing the severe market situation, the Group actively carried out the transformation of business modes, implemented technological reform, improved management and strove for sustainable development.

2. Share of results of joint ventures and associates

Share of results of joint ventures: For the year ended 31 December 2016, the share of results of joint ventures of the Group was a loss of RMB102 million, decreased by RMB151 million from a profit of RMB49 million for the corresponding period of 2015. This was mainly due to the fact that Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") suffered a loss of RMB99 million, decreased by RMB124 million compared to a profit of RMB25 million in 2015, due to the oversupply in the phosphorus chemical industry and the decline of the selling price.

Share of results of associates: For the year ended 31 December 2016, the share of results of associates of the Group was a loss of RMB8 million, decreased by RMB40 million over the corresponding period in 2015. This was mainly attributable to the loss of Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan"), a major associate of the Group, as a result of falling nitrogen fertilizer price.

3. Income tax

For the year ended 31 December 2016, income tax expense of the Group was RMB5 million, down by RMB143 million from RMB148 million over 2015. This is mainly due to the decrease in taxable profits of various subsidiaries resulted from the market downturn in 2016.

The subsidiaries of the Group are mainly registered in PRC mainland, Macao and Hong Kong, respectively, where profit tax rates vary. Among them, the tax rate of PRC mainland is 25%, the Group's profit derived from Macao is exempted from 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. Loss attributable to owners of the Company and net loss margin

For the year ended 31 December 2016, loss attributable to owners of the Company was RMB4,636 million. Facing a tough marketing environment, the Group actively took various operational measures, kept promoting the guideline of cost reduction and efficiency improvement, carried out a series of technical reform and scientific and technological innovations, and constantly deepened business transformation. Due to the market slump and write-down of RMB3,194 million on property, plant and equipment and interests in an associate for prudent purpose, the Group suffered a heavy loss in the current year.

For the year ended 31 December 2016, the net loss margin was 30.99%, which is calculated based on loss attributable to owners of the Company divided by turnover.

III. EXPENDITURES

For the year ended 31 December 2016, the three categories of expenses amounted to RMB1,857 million, increased by RMB205 million or 12.41% from RMB1,652 million over the same period in 2015.

Selling and distribution expenses: For the year ended 31 December 2016, selling and distribution expenses amounted to RMB754 million, decreased by RMB19 million or 2.46% from RMB773 million over the same period in 2015. The decrease was mainly attributable to the falling sales volume and the fact that the Group strengthened logistics management and kept promoting the guideline of cost reduction and efficiency improvement, which resulted in the reduction of freight, warehousing and storage charges year on year.

Administrative expenses: For the year ended 31 December 2016, administrative expenses amounted to RMB763 million, increased by RMB158 million or 26.12% compared to RMB605 million for the year ended 31 December 2015. This was mainly due to the fact that Sinochem Changshan, a subsidiary of the Group, undertook projects for technical reform and maintenance for the new production equipment, and its depreciation was included in administrative expenses during the shutdown.

Finance costs: For the year ended 31 December 2016, finance costs amounted to RMB340 million, increased by RMB66 million or 24.09% from RMB274 million over 2015 which was attributable to increased borrowings during 2016.

IV. OTHER INCOME AND GAINS

For the year ended 31 December 2016, the Group's other income and gains amounted to RMB234 million, decreased by RMB124 million or 34.64% from RMB358 million over the same period in 2015. This was mainly attributable to the fact that financial investment scale decreased and insurance claim received declined, compared with the corresponding period in the previous year.

V. OTHER EXPENSES AND LOSSES

For the year ended 31 December 2016, the Group's other expenses and losses amounted to RMB3,311 million, increased by RMB3,206 million from RMB105 million over the corresponding period in 2015. This was mainly attributable to the impairment loss of RMB3,194 on property, plant and equipment and interests in an associate.

VI. INVENTORY

The inventory balance of the Group as at 31 December 2016 amounted to RMB4,475 million, decreased by RMB1,837 million or 29.10% from RMB6,312 million as at 31 December 2015. The Group continued to strengthen the connection between procurement and sales and downsize the inventory scale. However, the revenue in 2016 decreased from the corresponding period of 2015, and therefore the inventory turnover days increased from 90 days in 2015 to 132 days[(Note)] in 2016.

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 2016 amounted to RMB153 million, decreased by RMB195 million or 56.03% from RMB348 million as at 31 December 2015, which was mainly due to that the Group strictly controlled the risk and scale of credit, resulting in the decrease in the balance of trade and bills receivables as at 31 December 2016 over that as at 31 December 2015.

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 was 6 days(Note) in 2016, 5 days faster than 11 days in 2015.

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

VIII. INTERESTS IN JOINT VENTURES

As at 31 December 2016, the balance of the Group's interests in joint ventures amounted to RMB374 million, decreased by RMB207 million or 35.63% from RMB581 million as at 31 December 2015, which was mainly due to the fact that joint ventures suffered losses as a result of weak market, and the Group sold its 25% stake in Three-Circles Sinochem Mosaic Fertilizer Co., Ltd. ("Sinochem-Mosaic"). In particular, the share of results of Yunnan Three Circles-Sinochem Chemical Co., Ltd. ("Three Circles-Sinochem") was a loss of RMB99 million calculated by equity method, and its interests in joint ventures was reduced by RMB103 million after selling its shares of Sinochem-Mosaic.

IX. INTERESTS IN ASSOCIATES

The balance of the Group's interests in associates as at 31 December 2016 amounted to RMB8,707 million, decreased by RMB2,867 million or 24.77% from RMB11,574 million as at 31 December 2015. Among them, the share of results of Yangmei Pingyuan was a loss of RMB22 million, and the share of results of Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") was RMB8 million. Qinghai Salt Lake was listed on Shenzhen Stock Exchange (stock code: 000792), and was mainly engaged in chemical raw materials and chemical products manufacturing. It is currently the biggest production base of the Chinese potash industry, and also one of the Group's important potash suppliers. The Group held 381 million shares of Qinghai Salt Lake with a market fair value of RMB7,267 million. The Group established solid strategic partnerships with Qinghai Salt Lake, and consistently explored opportunities of business corporation in broader areas.

The Group re-assessed the recoverable amount of the interest in Qinghai Salt Lake. The recoverable amount was estimated with reference to the investment's value-in-use which is derived by estimating the Group's share of the present value of the estimated future cash flows expected to be generated by Qinghai Salt Lake. The key assumption for the value-in-use calculations are those regarding the discount rate, growth rate and expected changes to revenue and direct costs used in the cash flow forecasts. In recent years, the potash business of Qinghai Salt Lake maintained a stable profitability, but its chemicals projects under trial production would cause uncertainties were brought about to the future performance of Qinghai Salt Lake. Therefore, the value-in-use of Qinghai Salt Lake is lower than its carrying amount, an impairment loss amounting to RMB2,830 million was recognized by the Group as at 31 December 2016. After the above impairment loss was recognised, interests in Qinghai Salt Lake was RMB8,216 million, accounting for 35.93% of the Group's total assets.

X. AVAILABLE-FOR-SALE INVESTMENTS

As at 31 December 2016, the balance of the Group's available-for-sale investments amounted to RMB498 million, decreased by RMB21 million or 4.05% from RMB519 million as at 31 December 2015. The stock price of China XLX Fertiliser Limited held by the Group decreased as at 31 December 2016, which led to a decrease of RMB21 million in available-for-sale investments.

XI. INTEREST-BEARING LIABILITIES

As at 31 December 2016, the Group's interest-bearing liabilities amounted to RMB6,033 million, decreased by RMB241 million or 3.84% from RMB6,274 million as at 31 December 2015. In particular,

(1) Borrowings

As at 31 December 2016, the balance of the Group's borrowings amounted to RMB4,033 million, including a corporate bond with an aggregate principal amount of RMB2.5 billion with a maturity of 10 years and a medium-term notes in an amount of RMB1 billion with a term of three years. The balance decreased by RMB241 million or 5.64% from RMB4,274 million as at 31 December 2015.

(2) Short-Term Commercial Paper

(i) The Group issued a 267-day commercial paper of RMB1 billion with an interest rate of 2.90% per annum on 19 August 2016, and

(ii) The Group issued a 266-day commercial paper of RMB1 billion with an interest rate of 2.90% per annum on 24 August 2016.

XII. TRADE AND BILLS PAYABLES

As at 31 December 2016, the balance of the Group's trade and bills payables amounted to RMB4,575 million, decreased by RMB1,422 million or 23.71% from RMB5,997 million as at 31 December 2015. The decrease of trade and bills payables was mainly attributable to the fact that the Group kept tight control over the size of trade payables in foreign currency to guard against the risk of RMB depreciation in 2016.

XIII. OTHER FINANCIAL INDICATORS

The Group uses earnings per share and ROE to evaluate profitability, current ratio and debt-to-equity ratio to evaluate solvency, and the trade and bills receivables turnover days and inventory turnover days to evaluate operating capacity (see the inventory and trade and bills receivables part of Management's Discussion and Analysis). By analyzing financial index such as profitability, liquidity and capital adequacy as well as operating capacity, financial standing and operating results can be fully summarized and evaluated, the performance of the management can be effectively assessed and the maximum interest of the owners of the Group can be achieved. Basic losses per share for the year ended 31 December 2016 amounted to RMB0.6600 and return on equity (ROE) for the year ended 31 December 2016 was –43.26%, both lower than those in 2015, which was mainly due to the slumping fertilizer market, decline of product margin, and write down of property, plant and equipment and interests in an associate for prudent purpose in 2016.

Table 3:

	2016	2015
Profitability		
(Losses)/Earnings per share (RMB) *(Note 1)*	**(0.6600)**	0.0314
ROE *(Note 2)*	**(43.26%)**	1.70%

Note 1: Calculated based on (loss)/profit attributable to owners of the Company for the reporting period divided by weighted average number of shares for the reporting period.

Note 2: Calculated based on (loss)/profit attributable to owners of the Company for the reporting period divided by the average equity attributable to owners of the Company as at the beginning and the end of the reporting period.

As at 31 December 2016, the Group's current ratio was 0.73, and the debt-to-equity ratio was 72.96%. Despite of the lower current ratio, the Group enjoyed relatively high banking facilities, was rated BBB+ by Fitch Ratings and had diversified fund-raising methods. The Group maintained a stable financial structure through actively taking operating measures in the sluggish fertilizer market.

Table 4:

	As at 31 December	
	2016	2015
Liquidity and Capital adequacy		
Current ratio *(Note 1)*	**0.73**	0.79
Debt-to-Equity ratio *(Note 2)*	**72.96%**	47.98%

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.

XIV. LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of financing included cash, bank loans 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 for related capital expenditures.

As at 31 December 2016, cash and cash equivalents of the Group amounted to RMB972 million, which was mainly denominated in RMB and US dollar.

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

Table 5:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank loans, unsecured	**–**	673,430
Short-term commercial paper	**2,000,000**	2,000,000
Borrowings from Sinochem Group	**–**	200,000
Borrowings from Sinochem Finance Co., Ltd.	**540,000**	60,000
Borrowings from Sinochem Hong Kong (Group) Co., Ltd.	**–**	850,000
Bonds		
Principal amount	**3,500,000**	2,500,000
Less: unamortized transaction costs	**(6,815)**	(9,165)
Total	**6,033,185**	6,274,265

Table 6:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Carrying amount repayable		
Within one year	**2,540,000**	3,583,430
More than one year, but within five years	**3,493,185**	2,690,835
Total	**6,033,185**	6,274,265

Table 7:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Fixed-rate borrowings	**6,033,185**	5,924,265
Variable-rate borrowings	**–**	350,000
Total	**6,033,185**	6,274,265

As at 31 December 2016, the Group had banking facilities equivalent to RMB24,977 million, including US$1,555 million and RMB14,190 million, respectively. The unutilized banking facilities amounted to RMB20,917 million, including US$1,422 million and RMB11,051 million, respectively.

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 following: the world economy remained sluggish and faced with great uncertainty; due to oversupply in the domestic fertilizer market, fertilizer price was still at a relatively low level; with the resumption of value-added tax, the preferential rail freight for fertilizer phased out and environmental protection requirements more strict, the pressure from industrial restructuring and competition was further increased. Those are big challenges for the Group's production and management, and the performance of the Group declined over the previous year. Facing a severe market environment, the Group actively took measures to deal with the significant changes in business environment. On one hand, the Group promoted strategic transformation, conducted a series of organizational reform and resource integration, and optimized production structure; on the other hand, the Group vigorously developed agricultural distribution network, improved operational efficiency, enhanced overall competitiveness, and reduced the unfavorable impact of operating risk on financial performance of the Group.

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 other deposit; and other price risk represents the Group's risk related to value of equity investments, which mainly derived from investments in equity securities. The Group performed sensitivity test on currency risk, interest rate risk and other price risk, see note 34(a) for more details.

Majority of the Group's assets, liabilities and transactions are denominated in RMB, US dollar and Hong Kong dollar. Due to the presence of a certain scale of import and export business of the Group, the exchange rate fluctuations will have an impact on the cost of import and export prices, the management of the Group adopted prudent foreign exchange forward measures all the time and continued to monitor and control the above risks so as to mitigate the 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 2016. Once the management about credit risks is missing, bad debt losses may affect the normal running of the Group as a result of uncollectible accounts and unavailable inventory after advance payment. The Group had adequate monitoring procedures and corresponding measures in respect of granting credit, credit approval and other related aspects, reinforced credit process monitoring, investigated overdue risks and paid close attention to the production and operation activities of credit customers, attached higher importance to strategic and core customers and suppliers and allocated more credit resources to products with higher profit margin so as to ensure the timely follow-up of overdue debt; meanwhile, the Group checked individual trade loan recoveries at every settlement date to ensure adequate bad debt provision of unrecoverable accounts so as to mitigate the credit risk.

Liquidity risk

Liquidity risk may lead to inadequate capital to meet the demand of daily working capital and repayment of maturing debt. Therefore, the Group took the following measures:

Regarding the management of liquidity risk, the management strengthened position management of ready cash, forecasted and strictly executed fund plan to monitor and keep enough cash and cash equivalents, increased the scale of advance received in sales season to maintain adequate operating cash flow; reasonably allocating short-and-long-term demand and seized the opportunities of lower market interest rates by issuing RMB1 billion of medium-term notes and RMB3 billion of short-term commercial paper, optimized capital structure to meet the demand of working capital and repayment of matured bonds. The Group carried out sensitivity test on liquidity risk, see note 34(a) for more details.

XVI. CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no contingent liabilities.

XVII. CAPITAL COMMITMENT

Table 8:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Contracted but not provided for		
– Property, plant and equipment	**75,917**	46,017
Authorized but not contracted for		
– Property, plant and equipment	**331,399**	546,315
– Investments in an associate and others	**500,000**	300,000
Total	**907,316**	892,332

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

During the reporting year ended 31 December 2016, the Group had no material investments.

XIX. HUMAN RESOURCES

As at 31 December 2016, the Group had about 6,240 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 53.

CHRONICLE OF EVENTS

JANUARY 2016

Together with the local strawberry association, Anhui Branch of the Group initiated the poverty-alleviation project of providing "product package plus technical service" to poverty-stricken strawberry growers in Changfeng County, Anhui Province.

The Group organized the seminar on reviewing the fertilizer project in Bohai – "Research and Application of Specialty and High-efficiency Fertilizers on Regional Grain Crops".

MARCH 2016

Sinochem Fuling Chemical Co., Ltd., a subsidiary of the Group, passed the evaluation and assessment on energy saving target conducted annually on "10 thousand companies" by Chongqing Municipal Government.

Mr. Ning Gaoning was appointed as chairman of the Board of Directors and a Non-executive Director of the Company.

International rating agency Fitch Ratings rated the Group as BBB+.

APRIL 2016

The Group and the Ministry of Agriculture jointly hosted the 2016 on-site conference of "Sinochem Dedicating to Rural Prosperity" on agricultural service and exchanging experiences on promoting the cooperation between the Ministry of Agriculture and enterprises in formula fertilization in Mingguang City, Anhui Province, in order to support the policy of zero-growth in fertilizer consumption.

Sinochem Yunlong Co., Ltd., a subsidiary of the Group, participated in China Feed Expo and the Promotion Event for Technological Achievements in Animal Husbandry.

MAY 2016

The Group attended the National Conference on Agricultural Science and Technology Education. As a representative of the "One-Package" Alliance of the National Technological Innovation in Agriculture, the Group entered into "Cooperation Framework Agreement between Research Institutions and Businesses" with China Agricultural University, a representative of research institutions, to push forward the work of the innovation alliance.

A delegation headed by Mr. Wang Hongjun, the then CEO of the Group, attended the 84th annual conference of the International Fertilizer Association (IFA) in Moscow. During the conference, the delegation conducted discussions with major global producers and suppliers.

JUNE 2016

The Group participated in the National Experience Exchanging Conference on Fostering New Types of Farmers. The conference acknowledged the efforts by businesses related to agriculture such as the Group on establishing field-schools, conducting training sessions and lectures and providing agricultural and technical services. The conference also affirmed that the cooperation with the Ministry of Agriculture will be further expanded and deepened.

The Group's research and development project of chelated fertilizer upgrading has been accepted technologically and the preset targets have been met, consolidating the Group's position of technological advancement in the chelated fertilizer segment.

The Group's applications for the National Science and Technology Support Program during the 13th five-year plan period have been approved, i.e. Grain Harvest Project and Double Reduction Project on Fertilizer Research and Development. The Group will take the lead on one subject and participate in one project.

CHRONICLE OF EVENTS

JULY 2016

The Chinese potash buying consortium, with the Group being one of the major representatives, and Belarusian Potash Company (BPC) reached an agreement on seaborne potash import for 2016.

Sinochem Chongqing Fuling Chemicals Co., Ltd. won the title of "Advanced Energy Saving Organization" in the national petroleum and chemical industry during the 12th Five-Year Plan period.

SEPTEMBER 2016

The science and technology achievement, "R&D and applications of new chelating technology in fertilizers", completed by Shenyang Research Institute of Chemical Industry Company Limited and Fujian Sinochem Zhisheng Fertilizer Company Limited, a subsidiary of the Group, was appraised by the experts from China Petroleum and Chemical Industry Association.

OCTOBER 2016

Sinochem Fertilizer was listed as the best of the top 50 fertilizer brands trusted by farmers in 2016. The selection process was jointly organized by China Phosphate Fertilizer Industry Association, CCTV-7 as well as other organizations.

DECEMBER 2016

Mr. Zhang Wei was appointed as chairman of the Board of Directors and a non-executive director of the Group.

Mr. Qin Hengde was appointed as an executive director, the Chief Executive Officer and the Chairman of the Corporate Governance Committee of the Company.

Sinochem Fertilizer won the award of "2016 Green Environmental Protection for Social Responsibilities in China". The award was jointly organized by Xinhuanet, and the Research Center for Corporate Social Responsibility of Chinese Academy of Social Sciences.

DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Mr. ZHANG Wei – Chairman of the Board and Non-executive Director

Mr. ZHANG Wei, aged 48, was appointed as Chairman of the Board and a Non-executive Director of the Company on 8 December 2016. Mr. Zhang graduated from the Chemical Engineering Department of Tsinghua University with a master's degree in biochemical engineering in 1995, and obtained an EMBA from China Europe International Business School in 2005. Mr. Zhang has worked in many subsidiaries of Sinochem Group, the ultimate controlling shareholder of the Company. From August 1999 to June 2005, he held various positions in Sinochem Fertilizer Co., Ltd., including deputy general manager, and general manager of its phosphate fertilizer department, sales management department, market distribution department and direct sales department. From December 2005 to August 2007, Mr. Zhang served as the president of Total-Sinochem Oil Company Ltd.. From August 2007 to April 2012, Mr. Zhang served as the executive vice president and president of China National Seed Group Co., Ltd.. From April 2012 to May 2016, he served as the president of Sinochem Petroleum Exploration and Production Co., Ltd.. Starting from September 2009, Mr. Zhang has been working with Sinochem Group and Sinochem Corporation, serving as the assistant to president and vice president for both companies. Mr. Zhang is currently the president and a director for both Sinochem Group and Sinochem Corporation. He also serves as the chairman of the board of directors and the president of Sinochem American Holdings, Inc., the chairman of the board of directors of Sinochem Europe Holdings Plc, and the president of Energy Division. Mr. Zhang is a senior economist, and has rich experience in chemical engineering and corporate operation and management.

Mr. QIN Hengde – Executive Director and Chief Executive Officer, and Chairman of Corporate Governance Committee

Mr. QIN Hengde, aged 46, is an Executive Director and Chief Executive Officer of the Company in charge of the Company's overall operation. Currently he is also the Chairman of Corporate Governance Committee of the Company. Mr. Qin graduated from the Economic Management Department of East China Institute of Technology with a bachelor's degree in accounting in 1991, from Huazhong University of Science and Technology with a master's degree in industrial engineering in 2002, and obtained an EMBA from China Europe International Business School in 2011. From November 1991 to March 2000, Mr. Qin worked in Hubei Hongqi Cable Factory, holding various positions, including assistant to the director of the finance department, director of the finance department, and deputy chief accountant. From March 2000 to July 2004, Mr. Qin served as the chief accountant of SDIC Yuanyi Industry Co., Ltd. and the deputy general manager of the investment management department of D'Long International Strategic Investment Co., Ltd.. Mr. Qin joined Sinochem Group in 2004. From July 2004 to December 2016, Mr. Qin served as the general manager of the business development department, financial controller, vice president and executive vice president and president of Sinochem International Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600500). Mr. Qin was also a director of Sinochem International Corporation from February 2010 to January 2017. From November 2016 to January 2017, Mr. Qin was a director and the non-executive chairman of Halcyon Agri Corporation Ltd. (a company listed on the Singapore Stock Exchange) and was a director of GMG Global Ltd. from September 2008 to November 2016, and the non-executive chairman of the same company from January 2015 to November 2016. Mr. Qin is currently an executive director and the legal representative of China National Seed Group Co., Ltd.. Mr. Qin is a senior accountant, and has rich experience in strategy and investment, merger and acquisition management and financial management.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Harry YANG – Executive Director

Mr. Harry YANG, aged 54, is an Executive Director of the Company. 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. From November 2002 to January 2017, Mr. Yang served as Deputy General Manager and General Counsel of the Company. Mr. Yang has served Sinochem Group for more than twenty years. He possesses years of experience 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 53, joined the Company as a Non-executive Director in August 2010. Mr. Yang graduated from Tianjin University of Commerce in 1985 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 from 1993 to 1994 in Germany. 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, President of Finance Division, and deputy chief financial officer 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 in 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), from 2007 to 2010. Since October 2009, Mr. Yang has been a non-executive director of Far East Horizon Limited (in which Sinochem Group is a substantial shareholder), whose shares are currently listed on the Main Board of the Stock Exchange in Hong Kong (stock code: 3360). Mr. Yang has been a director of Sinochem International Corporation, a subsidiary of Sinochem Group and 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 China Jinmao Holdings Group Limited (previously known as Franshion Properties (China) Limited), a subsidiary of Sinochem Group and listed on the Main Board of the Stock Exchange in Hong Kong (stock code: 0817), since February 2014.

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 66, 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 30 years experiences 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 50, joined the Company as a Non-executive Director in June 2011. Ms. Xiang graduated from Changchun University in 1987, majoring in Computer Software Engineering. She completed training courses of Digital System Control in Automobile Research Institute in Changchun, China in 1991 and obtained a certificate from Novell Computer Network Engineer Training Center in Wyoming, USA in 1996. Ms. Xiang is currently the Marketing Vice President of Latin America of Canpotex Limited, an export marketing association composed of the three potash producers in Canada. Prior to that, she worked in Potash Corporation of Saskatchewan Inc. since 1999 and held various positions as senior director and 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.. Ms. Xiang 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 56, 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 25 years.

Other than the directorship in the Company, Mr. Ko is also an independent non-executive director of Wai Chun Group Holdings Limited, EverChina Int'l Holdings Company Limited, and Chia Tai Enterprise International Limited, all of which are companies whose shares are listed on the Main Board of the Stock Exchange in Hong Kong, and is an independent non-executive director of Chinese Energy Holdings Limited, whose shares are listed on the GEM Board of the Stock Exchange in Hong Kong. Mr. Ko was previously a non-executive director of Harmonic Strait Financial Holdings Limited, whose shares are listed on the Main Board of the Stock Exchange in Hong Kong.

Mr. LU Xin – Independent Non-executive Director

Mr. LU Xin, aged 53, was appointed as an Independent Non-executive Director of the Company in February 2015. He is also a member of the Audit Committee, the Nomination Committee and the 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 has been awarded a master of business administration by the University of South Australia in 2006. Mr. Lu 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 has successively served as the assistant general manager, deputy general manager and managing director of Golden Sino (Holdings) Limited. From 2001 to 2004, Mr. Lu 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 an 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 in Hong Kong. Mr. Lu Xin is currently also the chairman of the board of directors of World International Consulting Limited. Mr. Lu has over 25 years of experience in finance, investment and corporate management with extensive knowledge about economic activities of Hong Kong and the Mainland China.

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

Mr. TSE Hau Yin, Aloysius, aged 69, 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, SJM Holdings Limited and China Huarong Asset Management Co., Ltd., all of which are companies whose shares are listed on the Stock Exchange in Hong Kong. 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 in Hong Kong 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 in Hong Kong until October 2014. From 2004 to 2010, Mr. Tse was an independent non-executive director of China Construction Bank Corporation, which is listed on the Main Board of the Stock Exchange in Hong Kong. From May 2005 to December 2016, he was an independent non-executive director of Daohe Global Group Limited, which is listed on the Main Board of the Stock Exchange in Hong Kong.

SENIOR MANAGEMENT

Mr. FENG Ming Wei – Deputy General Manager

Mr. FENG Ming Wei, aged 54, is Deputy General Manager of the Company. Mr. Feng graduated from Beijing University of Iron and Steel Technology specializing in automation in 1987 and acquired an on-the-job master's degree equivalent to research studies in world economics from Renmin University of China in 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 Co., Ltd. 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 Sinochem Fertilizer Co., Ltd.. Mr. Feng was promoted to the present position in May 2007.

Mr. LI Yang Jing – Deputy General Manager

Mr. LI Yang Jing, aged 44, is Deputy General Manager of the Company. Mr. Li graduated from Shenyang Institute of Chemical Technology in 1995 majoring in Petroleum Processing with a bachelor's degree of Engineering, and acquired a 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 of 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 46, 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 Sinochem Group and had worked in investment department and finance department. From 2002 to 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 serving the present position.

Mr. MAO Feng – Deputy General Manager

Mr. MAO Feng, aged 45, is Deputy General Manager of the Company. Mr. Mao graduated from Tianjin Institute of Foreign Trade with a bachelor's degree in international trade in 1994. From 1990 to 2007, Mr. Mao served in China Machinery Import and Export Corporation and China International Tendering Company under China General Technology Group. In 2007, Mr. Mao joined Sinochem Group, and served as deputy general manager of the railway business department and deputy general manager of the strategic market department of Sinochem International Tendering Co., Ltd., assistant to the general manager of the investment development department and deputy general manager of the strategic planning department. He joined the Company in January 2017 and was promoted to the present position.

Mr. XU Zhongqi – Deputy General Manager

Mr. XU Zhongqi, aged 41, is Deputy General Manager of the Company. Mr. Xu graduated from China Youth University of Political Studies and Beijing Normal University with a bachelor's degree in ideological & political education in 1998 and a master's degree in administrative management in 2001, respectively, and also obtained an EMBA from Tsinghua University in 2013. In 2002, Mr Xu joined Sinochem Group and served as manager of the organization development department of human resources department of Sinochem Group, manager of the human resources department of Sinochem Taicang Chemical Industrial Park, general manager of the human resources department of Sinochem International Tendering Co., Ltd., general manager of the human resources department of the Company, deputy general manager of Sinochem Chongqing Fuling Chemicals Co., Ltd., assistant to the general manager of the Company, and was promoted to the present position in January 2017.

Mr. MA Yue – Deputy General Manager

Mr. MA Yue, aged 37, is Deputy General Manager of the Company. Mr. Ma graduated from Beijing Jiaotong University in 2001 and Tsinghua University in 2013 with a bachelor's degree in management science & engineering and an EMBA, respectively. Mr. Ma joined the Company in 2001, and served as general manager of Anhui Branch, general manager of Henan Branch, general manager of Hainan Branch, general manager of the distribution & management department, general manager of the network business department of Sinochem Fertilizer, general manager of Jiangsu Branch, assistant to the general manager of the Company, and was promoted to the present position in January 2017.

CORPORATE GOVERNANCE REPORT

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, Sinofert Holdings Limited is committed to maintaining a high standard of corporate governance in the interests of its shareholders. The Company devotes to best practices on corporate governance, and compliance with the applicable corporate governance standards contained in relevant codes as set out in the Rules Governing the Listing of Securities (the "Listing Rules") 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 2016 and up to the date of this report, the Company has complied with the applicable code provisions set out in the Corporate Governance Code, except for the deviations from the code provisions E.1.2 as described below.

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 3 June 2016 (the "2016 AGM"), Mr. Ning Gao Ning, the then Chairman of the Board, did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2016 AGM, the Chairman of the Board authorized and the Directors attending the meeting elected Mr. Wang Hong Jun, the then Executive Director and Chief Executive Officer of the Company, to chair the meeting on behalf of the Chairman of the Board. Respective chairmen of the audit, remuneration, nomination and corporate governance committee of the Company were present at the 2016 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 ("Board") directs, monitors and supervises the management, business, strategic planning and financial performance of the Company and its subsidiaries and the Board considers that enhancing value for shareholders is a duty of the Directors.

Board composition

As at the date of this report, the Board consists of nine members. Among them, two are Executive Directors, namely Mr. QIN Hengde and Mr. Harry YANG; four are Non-executive Directors, namely Mr. ZHANG Wei, 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 37 to 40 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 2016 and up to date of this report, changes occurred in the composition of the Board as belows:

1. On 8 March 2016, Mr. Liu De Shu resigned as Chairman of the Board and Non-executive Director of the Company due to age reason. Mr. Ning Gao Ning was appointed as Chairman of the Board and Non-executive Director on the same day. Subsequent to his appointment, Mr. Ning was re-elected by the then shareholders of the Company at the 2016 AGM.

2. On 8 December 2016, Mr. Ning Gao Ning resigned as Chairman of the Board and Non-executive Director of the Company due to his intention to focus on other work commitments and engagements. Mr. Zhang Wei was appointed as Chairman of the Board and Non-executive Director on the same day. Subsequent to his appointment, Mr. Zhang was re-elected by the then shareholders of the Company at the special general meeting of the Company held on 16 February 2017.

3. On 8 December 2016, Mr. Wang Hong Jun resigned as Executive Director and Chief Executive Officer of the Company due to adjustment of work arrangements. Mr. Qin Hengde was appointed as Executive Director and Chief Executive Officer of the Company on the same day. Subsequent to his appointment, Mr. Qin was re-elected by the then shareholders of the Company at the special general meeting of the Company held on 16 February 2017.

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 16 years and Mr. Tse Hau Yin Aloysius, Independent Non-executive Director of the Company, has served the Board for more than 9 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 11 June 2015, and Mr. Tse's further appointment will be subject to a separate resolution to be approved by shareholders. In assessing the independence of Mr. Ko and Mr. Tse, the Board took into account the fact that Mr. Ko and Mr. Tse have not engaged in any executive management of the Group, and have demonstrated their ability to provide independent view to the Company's matters during their terms of office with the Company. The Board believes that Mr. Ko and Mr. Tse are independent with the Company and have complied with the independence requirements of Rule 3.13 of the Listing Rules.

For the year ended 31 December 2016, Mr. Liu De Shu, Mr. Ning Gao Ning, Mr. Zhang Wei 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. Beside, Mr. Zhang Wei has been the president and a director of Sinochem Group since the date of his appointment as Non-executive Director of the Company.

In addition, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan, the Company's Non-executive Directors, were nominated by Potash Corporation of Saskatchewan Inc. ("PotashCorp"), the second largest shareholder of the Company, to the Board of the Company. During the year ended 31 December 2016, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan hold senior positions in PotashCorp and/or its subsidiaries. In March 2016, Ms. Xiang moved to Canpotex Limited holding the position of Marketing Vice President of Latin America. Canpotex Limited is an export association composed of three potash producers including PotashCorp.

Save 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 the management team to handle daily operational matters under the instruction and supervision of the Chief Executive Officer. Mr. Liu De Shu and Mr. Ning Gao Ning, as the then Chairman during their respective terms of tenures, were responsible to lead and ensure the effective management of the Board. Subsequent to the resignation of Mr. Liu and Mr. Ning and the appointment of Mr. Zhang Wei as the Chairman of the Board on 8 December 2016, Mr Zhang continues to lead and ensure the effective management of the Board. Mr. Wang Hong Jun as the then Chief Executive Officer, was responsible for the effective implementation of the policies formulated by the Board and the management of the businesses and operations of the Group. Subsequent to the resignation of Mr. Wang and the appointment of Mr. Qin Hengde as the Chief Executive Officer on 8 December 2016, Mr. Qin continues to execute 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 2016, 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. All newly appointed Directors for the year have confirmed that they have received sufficient relevant introduction after their respective appointment as Directors of the Company. Further, Mr. Zhang Wei and Mr. Qin Hengde also attended a formal induction training conducted in March 2017.

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 all 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 2016, 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, 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 then Chairman, Mr. Liu De Shu and Mr. Ning Gao Ning, and the present Chairman, Mr. Zhang Wei, and other members of the Board at the aforesaid Board meetings are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)* *(note 1)*	1/1
Mr. Wang Hong Jun *(former Chief Executive Officer)* *(note 1)*	4/4
Mr. Harry Yang	4/4
Non-executive Directors	
Mr. Zhang Wei *(Chairman)* *(note 2)*	1/1
Mr. Liu De Shu *(former Chairman)* *(note 2)*	0/0
Mr. Ning Gao Ning *(former Chairman)* *(note 2)*	4/4
Mr. Yang Lin	4/4
Dr. Stephen Francis Dowdle	4/4
Ms. Xiang Dandan	4/4
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	4/4
Mr. Lu Xin	4/4
Mr. Tse Hau Yin, Aloysius	4/4

Notes:

1. Mr. Wang Hong Jun resigned as Executive Director and Chief Executive Officer of the Company on 8 December 2016 and Mr. Qin Hengde was appointed as Executive Director and Chief Executive Officer of the Company on the same day.

2. On 8 March 2016, Mr. Liu De Shu resigned as Chairman of the Board and Non-executive Director of the Company and Mr. Ning Gao Ning was appointed as Chairman of the Board and Non-executive Director on the same day. Subsequently on 8 December 2016, Mr. Ning Gao Ning resigned as Chairman of the Board and Non-executive Director of the Company and Mr. Zhang Wei was appointed as Chairman of the Board and Non-executive Director on the same day.

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.

The latest terms of reference of the Audit Committee, which have been revised on 31 December 2015 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, risk management and internal control procedures.

The Audit Committee held four meetings during the year ended 31 December 2016. The Chief Financial Officer and the external auditors also attended the meetings. The attendance rates of each of the committee members at these meetings are as follows:

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

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

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

2. reviewed and discussed significant issues identified in the preparation of the consolidated financial statements, including those related to accounting records, financial report 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 2016;

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

5. reviewed and evaluated the effectiveness of 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. The results of such review were satisfactory;

6. discussed the Group's internal audit plan and the related work with the Internal Audit Department (which is responsible for the internal audit functions of the Company) and are satisfied with their report and findings;

7. discussed the Group's risk management plan and the related work with the Risk Management personnels;

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

9. reviewed the continuing connected transactions conducted by the Group; and

10. reviewed the existing terms of reference of the Audit Committee.

Remuneration Committee

A remuneration committee was established by the Board in August 2005 (the "Remuneration Committee") with its written terms of reference. The Remuneration Committee currently comprises five members. The Chairman of the Remuneration Committee is 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.

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 2016. The Remuneration Committee had also approved or passed certain proposals by circulation of written resolutions during the year, and had presented the relevant proposals to the Board for review or approval, where applicable, in subsequent board meetings. The attendance rates of each of the committee members at the aforesaid meetings are as follows:

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

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

1. evaluated the performance of Executive Directors and senior management and approved the proposal on performance bonus for Executive Directors and senior management for the year 2015, based on the performance target established in the year before;

2. approved the remuneration package (including cash compensation and bonus scheme) of Executive Directors and senior management for the year 2016 and the key terms in their service contracts;

3. made recommendation to the Board in respect of the compensation proposal for Non-executive Directors and Independent Non-executive Directors for the year 2016;

4. approved the appointment of remuneration consultant; and

5. reviewed the existing terms of reference of the Remuneration Committee.

Remuneration policy of the Group

The key components of the Group's remuneration package include basic salary, and where applicable, other allowances, annual 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 2016, the Group had about 6,240 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 2016, the Group provided 2,930 person-times or 27,610 hours of training (any training organized by the subsidiaries have not been included in these numbers). The training courses covered areas such as industrial 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.

Other than those mentioned above, the Company had also arranged directors & officers' liability insurance which provides comprehensive protection for the Group's business by covering losses in relation to investigations or claims against the Company's Directors and the Group's officers.

Nomination Committee

A nomination committee was established by the Board in August 2005 (the "Nomination Committee") with its written terms of reference. The Nomination Committee currently comprises five members. The Chairman of the Nomination Committee is Mr. Ko Ming Tung, Edward and the other members are Dr. 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.

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 held two meetings during the year ended 31 December 2016. 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:

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

The 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 appointments of Mr. Ning Gao Ning, Mr. Zhang Wei and Mr. Qin Hengde as Directors of the Company during the year ended 31 December 2016, and recommended the same for approval by the Board. Mr. Ning, Mr. Zhang and Mr. Qin were recommended by Directors. Their profiles were subsequently reviewed by the Nomination Committee and their suitability was assessed for the Board's consideration and recommended to the shareholders for consideration. In the selection process, the Nomination Committee makes reference to the criteria including reputation for integrity, accomplishment and experience in the relevant business sector; professional and educational background; and potential time commitment for the Board and/or committee responsibilities.

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. Qin Hengde (Executive Director and Chief Executive Officer), and the other members of the Corporate Governance Committee are Mr. Harry Yang (Executive Director), Ms. Cheung Kar Mun, Cindy (Company Secretary) and Ms. Cao Jing (Legal Director of Comprehensive Administration Department). Mr. Qin Hengde was appointed as the Chairman of the Corporate Governance Committee on 8 December 2016 and Ms. Cao Jing was appointed as a member of the Corporate Governance Committee on 3 June 2016 following the resignations of Mr. Wang Hong Jun and Ms. Dong Jiao Jiao from their respective positions on the relevant dates.

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 ended 31 December 2016. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	Attendance rate
Executive Directors	
Qin Hengde *(Chairman)* *(note 1)*	0/0
Mr. Wang Hong Jun *(former Chairman)* *(note 1)*	1/1
Mr. Harry Yang	1/1
Management	
Ms. Cheung Kar Mun, Cindy	1/1
Ms. Cao Jing *(note 2)*	0/0
Ms. Dong Jiao Jiao *(note 2)*	1/1

Notes:

1. On 8 December 2016, Mr. Wang Hong Jun resigned as the Chairman of Corporate Governance Committee of the Company and Mr. Qin Hengde was appointed as the Chairman of Corporate Governance on the same day.

2. On 3 June 2016, Ms. Dong Jiao Jiao resigned as a member of the Corporate Governance Committee of the Company and Ms. Cao Jing was appointed as a member of the Corporate Governance Committee of the Company on the same day.

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

1. reviewed the Company's policies and practices on corporate governance and made recommendations to the Board;

2. reviewed and monitored the training and continuous professional development of Directors and senior management;

3. reviewed the Company's corporate governance policies and practices and monitor the Company's compliance with the Corporate Governance Code and the Listing Rules;

4. reviewed and monitored the code of conduct applicable to employees and directors;

5. reviewed the Company's compliance with the corporate governance code and disclosures in the Corporate Governance Report; and

6. reviewed the existing terms of reference of Corporate Governance Committee.

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.

2016 AGM of the Company was held on 3 June 2016, in which Mr. Wang Hong Jun, the then 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 2016 AGM and were available to answer relevant questions.

During the year, a special general meeting of the Company was held on 25 February 2016 to approve certain continuing connected transactions of the Company by the then independent shareholders.

The attendance rates of each of the Directors at the 2016 AGM are as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)* *(note 3)*	0/0
Mr. Wang Hong Jun *(former Chief Executive Officer)* *(note 3)*	1/1
Mr. Harry Yang	1/1
Non-executive Directors	
Mr. Zhang Wei *(Chairman)* *(note 2)*	0/0
Mr. Liu De Shu *(former Chairman)* *(note 1)*	0/0
Mr. Ning Gao Ning *(former Chairman)* *(note 1 and 2)*	0/1
Mr. Yang Lin	0/1
Dr. Stephen Francis Dowdle	0/1
Ms. Xiang Dandan	0/1
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	1/1

The attendance rates of each of the Directors at the abovementioned special general meeting is as follows:

	Attendance rate
Executive Directors	
Mr. Qin Hengde *(Chief Executive Officer)* *(note 3)*	0/0
Mr. Wang Hong Jun *(former Chief Executive Officer)* *(note 3)*	1/1
Mr. Harry Yang	1/1
Non-executive Directors	
Mr. Zhang Wei *(Chairman)* *(note 2)*	0/0
Mr. Liu De Shu *(former Chairman)* *(note 1)*	0/1
Mr. Ning Gao Ning *(former Chairman)* *(note 1 and 2)*	0/0
Mr. Yang Lin	0/1
Dr. Stephen Francis Dowdle	0/1
Ms. Xiang Dandan	0/1
Independent Non-executive Directors	
Mr. Ko Ming Tung, Edward	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	1/1

Notes:

1. Mr. Liu De Shu resigned as Chairman of the Board and Non-executive Director of the Company on 8 March 2016 and Mr. Ning Gao Ning was appointed as Chairman of the Board and Non-executive Director of the Company on the same day.

2. Mr. Ning Gao Ning resigned as Chairman of the Board and Non-executive Director of the Company on 8 December 2016 and Mr. Zhang Wei was appointed as Chairman of the Board and Non-executive Director of the Company on the same day.

3. Mr. Wang Hong Jun resigned as Executive Director and Chief Executive Director of the Company on 8 December 2016 and Mr. Qin Hengde was appointed as Executive Director and Chief Executive Director of the Company on the same day.

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 Unit 4705, 47th 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 2016, 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 2016 were as follows:

	For the year ended 31 December	
	2016	2015
Nature of services	***RMB'000***	*RMB'000*
Audit service (including audit of financial statements and other audit related projects)	**4,250**	4,250
Tax related service	**14**	13
Total	**4,264**	4,263

FINANCIAL MANAGEMENT

In 2016, in terms of performance appraisal, the Group constantly improved the total budget management system, paid attention to the breakdown of the budget and the responsibility implementation. The Group strengthened process monitoring, increased the proportion of process monitoring indicator in assessment and guaranteed the achievement of annual targets. The Group carried on with the high-performance orientation, focused on investment returns, optimized resource allocation and brought into full play the strategic orientation and budget monitoring role of performance appraisal.

In 2016, the exchange rate of RMB against US dollar fluctuated and the international financial market had high expectations for the depreciation of RMB, which had a relatively big impact on the import business of the Group. The Group took prudent measures after considering the operation mode of its fertilizer import business; and adopted a high proportion of forward hedge in order to avoid foreign currency risks according to the import agreement and plan. The Group brought into full play the advantage of integrated operation of both domestic and overseas resources, strengthened the allocation and utilization of internal capital of the Group and increased the capital turnover rate; utilized and increased settlement modes such as banks' acceptance bill and reduced total capital cost; and maintained close cooperation with external banks and continued to enjoy abundant credit lines.

In 2016, the Group kept on strengthening the integrated management of the financial personnel and improving their professional qualities and management level by training, job rotation and performance appraisal, and made a detailed list of four-echelon members through talent review, thus providing a basis for the deployment and promotion of the financial personnel, and carried out individualized training at different levels in each echelon, constantly enhancing the professionalism of all the financial personnel. Besides, the Group has established and improved the team-culture system as well as organized party-building of the Chinese Communist Party members and department activities, reinforcing communications between employees and increasing their cohesion. Overall, the Group aims at building with great efforts a sound, efficient and reliable financial team.

During 2016, the Group made great effort in quality and efficiency improvement. For trading businesses, the Group attached more importance to the sales of strategic products, adjusted the structure to promote growth, strengthened centralized procurement, persisted in optimizing logistics and strove to lower down the procurement cost and logistics expenses; in terms of production businesses, the Group continued to consolidate the three basics management, intensified the production process control, fully implemented total cost management, reduced quality cost and avoided under-performance management cost and low efficiency cost. The Group actively adjusted the asset structure, optimized the structure of production capacity and improved the quality of the overall assets by disposing and revitalizing low-efficiency and non-performing assets. The Group continued to increase income and decrease expenditure, increased the operation quality and improved the profitability and market competitiveness through cost decreasing and effect increasing activities in the procurement, production and marketing process.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board understands that, in accordance with the code provision C.2 of the Corporate Governance Code contained in the Listing Rules, the Board should ensure the Group's internal control and risk management system to be robust, appropriate and effective, and review on a regular basis in order to safeguard shareholders' interests and the Group's asset. During the reporting period, 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 ensure the effective operation of the internal control system by taking into consideration the respective characteristics of the headquarter, subsidiaries and branches of the Company.

Internal Control

For years, the Group has been committed to perfect the system of internal control and risk management and constantly improve the system construction and achieved practical effects in internal control and risk management. In accordance with the requirements of Listed Rules of Hong Kong Stock Exchange, the Internal Audit Department, as the key responsible party in internal control of the Group, formulates the internal audit projects and annual internal audit plan based on the results of annual risk assessment so as to assess the efforts made by the Group in internal control and risk management. It also reviews and discusses with the Audit Committee the implementation of annual audit and the allocation of resources in order to ensure the effectiveness of internal control.

During the reporting period, the Internal Audit Department of the Group implemented its work according to its annual audit plan. The audit projects covered areas such as financial audit, internal control audit, risk assessment, audit investigation and consultation services, etc.. Key branches and subsidiaries of the Group are the audit objects. Combined with the internal control system of the Group, the results of previous internal control assessments, the findings of annual audit investigations, special audit by National Audit Office of the People's Republic of China as well as the concern areas of the Audit Committee, through carrying out self-assessments by departments of the headquarter, branches, controlling production subsidiaries and overseas subsidiaries, the Internal Audit Department thoroughly reviewed the effectiveness of the design and implementation of the key elements in respect of environment control, risk assessment, controlled activities, information and communication, internal control, etc.. Furthermore, the Internal Audit Department 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, self-assessment and examination, and perfected the internal control system of the Company by fostering sound internal control assessment and improving the circulation mechanism.

1. Environment control: After years of development and improvement, the Group has established a sophisticated environment, a regulated governance structure, a clear strategic vision, a sound corporate culture and a well-developed human resources management mechanism. The Group performed social responsibilities proactively in order to lay a solid foundation for the establishment of a well-organized internal control and risk management system in the Company.

2. Risk assessment: The Group analyzed the changes in the macro environment both at home and abroad, industrial environment and internal environment of the Company, comprehensively assessed each kind of risk the Company might face, identified significant risk areas and monitored the implementation of risk management and constantly improved the building of the risk management system.

3. Control activities: In response to the Group's internal control 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 execution of internal control through strengthening supervision and examination.

4. Information and communication: The Group established open information channels with good information flow in and out as well as up and down, information transmission mechanism, anti-embezzlement mechanism and complaint and investigation mechanism so that information can be effectively exchanged, reasonably disclosed and safely utilized within and outside of the Company.

5. Internal control: Through years' of development, the Group, in accordance with relevant requirements of the Listing Rules of the Hong Kong Stock Exchange and Internal Control Framework of COSO, formulated a set of relatively perfect internal control system, built a multi-level internal control system, and established the working methods, procedures and requirements meeting the 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 that, for the year of 2016, it had a relatively good internal control environment; systematically identified, assessed and coped with risks the Group faced, established a sound and perfect internal system and normative business processes and did a good job in information transmission and communication as well as execution of internal supervision. The system of internal control and risk management was adequate and effective and can secure 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 Hong Kong Stock Exchange and refer to the Basic Norms of Internal Control and its guidelines. The Group will focus on building a strong multi-level supervision system, improve reporting as well as the early warning mechanism, rectification and follow-up mechanism and outcome application system, further enhance the effectiveness of design and execution of internal control, constantly promote the quality and efficiency of the internal control and ensure the smooth implementation of the Group's strategic objectives.

Risk Management

The Group adopted a risk and internal control management mechanism for which the general manager is responsible under the leadership of the Board of Directors and built an organizational guarantee system consisting of the decision-makers, risk and internal control committee, risk management department, responsibility departments for major risk management and auditing and supervision department, which is in charge of the building of the risk and internal control system.

Faced with a serious external economic situation and increasing operational pressure, the Group built a risk control culture and enhanced the risk management awareness of all the personnel at various levels through diversified channels in 2016. In line with the requirement of external supervision of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council and its own risk management, the Group built a risk-oriented internal control system, adhered to the principle of "risk management covering each and all business operations", paid special attention to the management and control of key businesses, key processes and key risk points and strengthened the management and control means and measures for major risks. After streamlining the risk points and control points in major functional processes and business processes, 204 internal control processes were built under 23 Level I process frameworks and systematic and standardized manuals were compiled. The Group also focused on standardizing the risk management system of business documents, the contract seal management and the procurement and sales implementation processes.

In 2016, the Group enhanced the allocation and utilization efficiency of credit resources, carried out differentiated monitoring and evaluation over companies with over-due payment, improved the means of inventory risk management and further deepened the management and control of key operational risks.

In order to ensure the implementation effectiveness of the internal control system, the Group brought into full play its internal examination and evaluation function, relied on the three-layer inspection mechanism and the grass-root inspection team, built and improved a multi-level and full-coverage examination and evaluation system, carried out 27 inspections among its subsidiaries and 5 special risk investigations throughout the year while referring to the risk points and key control points in the internal control manual. As a result, the quality and efficiency of internal supervision was fully enhanced and there were no major risk incidents all the year round.

INVESTOR RELATIONS AND INFORMATION DISCLOSURE

The Group attaches great importance to investor relations, which is directly under 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 2016, the overall fertilizer market was still sluggish with excess production capacity and increasing chaotic competition. Confronted with a stagnant industrial environment, the Company actively carried out various work related to investor relations and information disclosure, fully communicated with the capital market on industrial market conditions, business operation and development strategy of the Company, and achieved good results.

In 2016, the work related to investor relations of the Company mainly included:

1. In March 2016, the Company announced its 2015 annual results and held press conference and analysts' meeting.

2. In August 2016, the Company announced its 2016 interim results and held press conference and analysts' meeting.

Apart from the above-mentioned results press conferences, the Group 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 year ended 31 December 2016, the Company had conducted over 300 discussions or communications with the capital market in different ways.

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

HEALTH, SAFETY AND ENVIRONMENT

In 2016, the Group achieved the planned goals of no major and above production accidents, no level-IV and above environmental incidents, and no accidents of occupational disease hazards. The Group maintained an overall stable performance in health, safety and environmental protection (HSE).

During the year of 2016, with the opportunity of benchmark creation, the Group actively carried out the concept of putting people first and safety development, strictly carried out the Group's Decision on Completing the 2016 HSE Tasks, strengthened the HSE-related responsibility of personnel at all levels, centered on the short board of HSE management and consolidated the foundation by implementing four major measures, namely, risk management as the key, behavioural improvement and intrinsic safety as the focus, HSE leadership as the driving force and HSE execution as the assurance. In the year 2016, the Company's "safety management red line" was strictly carried out, the safety concept of "life is more important than work" was generally accepted, and there was zero accident in the major maintainance projects in Sinochem Yunlong, with an instant operation success; the project of creating benchmark HSE enterprise among the Company's subsidiaries, associates and joint ventures was successfully implemented and two plants at the grass-root level was identified as the HSE benchmark plants within the Group; based on the work done in 2015, the pilot project of safe journey was launched in Sinochem Shandong Fertilizer, Co., Ltd., with a radiating effect on its neighbouring regions and the HSE management was effectively improved; an HSE audit mechanism was set up, the HSE management was continuously improved and potential safety hazards was forcefully rectified; the basic building of occupational health management was consolidated, occupational hazards was effectively controlled and the health of the personnel was ensured.

The Group centered on risk control, attached high importance to compliance and intrinsic safety, built and improved the HSE supervision and appraisal system, enhanced the effort in supervision, urged the hazard solution and constantly improved the HSE performance; enhanced the service level and promoted the implementation of key tasks. In 2016, all the enterprise energy saving and emission reduction indicators were achieved, there were no accidents from the 6 shareholding enterprises that needed to be reported to the Group, the overall HSE control capability was improved and the accident frequency was greatly reduced through strengthening the operation management. The Group focused on the process and equipment safety management, eliminated potential hazards, steadily pushed forward basic management, carried out safety training, enhanced the responsibility performance safety awareness and capacity, carried out project transformation and increased the intrinsic safety of the mines and equipment.

The Group insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, continuously reduced waste emission through technological transformation, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. The Group has set up an HSE Committee, led by the key personnel of the management who is in charge of the implementation of environmental protection tasks. The management of environmental protection has been included in the HSE risk guarantee assessment. Responsibility statements are signed at the beginning of every year throughout the hierarchy of the Company and the environmental protection targets are assigned to every position and every personnel of the Group. The Group strictly implemented the "three-simultaneity" management of environmental protection for construction projects; strictly assessed the operating rate of environmental protection facilities, the effect of environmental protection and the implementation ratio of pollutant emission; strengthened the management of radiation sources and solid waste and considered the enterprises as the environmental protection entities. In the future, the Group will continue to increase inputs into environmental protection equipments and facilities, implement control from the source and responsibility-oriented assessment, ensure the fulfillment of emission reduction targets; and actively build an enterprise featuring intrinsic safety and environmental friendliness and proactively fulfill its social responsibility.

An actual investment of RMB25.93 million was made in the Compnay's environmental protection throughout the year, including RMB1.33 million for 7 projects in Sinochem Fuling; RMB9.01 million for 3 projects in Sinochem Changshan; RMB4.8 million for 3 projects in Sinochem Yunlong; RMB9.1 million for 3 projects in Shandong Fertilizer; RMB1.6 million for 5 projects in Sinochem Oriental Fertilizer; RMB90,000 for 1 project in Sinochem Zhisheng; Sinochem Shandong Fertilizer was awarded National Advanced Unit of Petroleum and Chemical Industry Environmental Protection during the 12th Five-Year Plan Period, the General Manager of Sinochem Shandong Fertilizer was honored as An Outstanding Manager for National Petroleum and Chemical Industry Environmental Protection during the 12th Five-Year Plan Period and the Section Chief of Environmental Protection in Sinochem Yunlong was entitled as Advanced Individual for National Petroleum and Chemical Industry Environmental Protection during the 12th Five-Year Plan Period.

Various emission reduction indicators were in line with the annual progress plan. The emission of major pollutants such as SO_2, COD, NH_3-N and NO_X was reduced by 24.43%, 68.46%, 63.09% and 25.78%, respectively.

Environment, Social and Governance Report

The Company is going to publish its Environmental, Social and Governance Report 2016 soon in compliance with the ESG Reporting Guide set out in Appendix 27 to the Listing Rules. The content of the report will conform to the phased requirements of The Stock Exchange, disclosing Sinofert's performance in environmental and social aspects.

MAJOR CUSTOMERS AND SUPPLIERS

The Group focused on key products. On one hand, it strengthened the development of core purchase bases and core suppliers, stabilized the international and domestic supply system, built a diversified supply chain, guaranteed the long-term and stable supply of high-quality fertilizer resources for the Company and continued to maintain its leading position as the largest fertilizer importer in China; on the other hand, it explored key markets and maintained close cooperation with core customers, continued to improve the integrated management of upstream and downstream operations, formed a strong linkage between the upstream and downstream operations and became an important player in the supply chain of basic fertilizers.

In the year 2016, the aggregate turnover generated from the 5 major customers of the Group accounted for no more than 20% of the Group's total turnover. The Group maintained a stable relationship with Guizhou Kailin Agricultural Development Co., Ltd., one of the major customers of the Group in terms of potash sales starting from 2011 and at the same time was also one of the Group's important phosphate suppliers. Considering the long-term mutually beneficial relationship with Guizhou Kailin, the Group granted Guizhou Kailin a credit line of RMB20 million and a credit terms of 30 days. As the date of the Report, all the subsequent settlement in relation to receivables from Guizhou Kailin as at 31 December 2016 was completed. In February 2017, Sinochem Fertilizer and Guizhou Kailin Holdings (Group) Co., Ltd., parent company of Guizhou Kailin Agricultural Development Co., Ltd., signed a strategic cooperation agreement with 1.2 million tons of nitrogen, phosphate, potash, phosphate rock, aiming to complement each other and achieve win-win results.

In addition, in the year 2016, the aggregate purchase from the Group's five major suppliers accounted for 30% of the Group's total, including 5% from the largest supplier. One of the major shareholders of the Company, Potash Corporation of Saskatchewan Inc., holds one third of the equity interest in the Group's largest supplier.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group strictly complies with the requirements of laws, regulations and policies in China as well as the Listing Rules of the Hong Kong Stock Exchange. In 2016, with stricter supervision of the Chinese government on environmental protection and work safety, the Group adhered to the regulations of the Environmental Protection Law and the Law of Work Safety in its production and operation activities. While implementing the new Law of Work Safety, the Group abided by the laws and regulations of environmental protection, clean production and water and soil conservation, actively implemented the principle of putting people first and safe development, built an environmental protection mechanism, formulated an environmental protection plan and regulations within the Company, constantly improved the environmental protection compliance, invested a large amount of resources to improve production equipment, and reduced production emissions and pollutions. The Group successfully achieved the emission reduction indicators for 2016, largely decreased the total energy consumption and effectively safeguarded the lawful operation and sound implementation of the Group's businesses as well as the achievement of the Group's operation objectives and strategic transformation.

DIRECTORS' REPORT

The board of directors of the Company (the "Board") hereby presents the directors' report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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/monodicalcium phosphate. Further discussion and analysis of these activities, including a discussion of the principal risks and uncertainties facing the Group, an analysis using financial key performance indicators, and an indication of likely future developments in the Group's business, can be found in the sections of "Management Review and Prospect" and "Management's Discussion and Analysis" of the annual report. In addition, a discussion on the Group's environmental policies and performance, the Group's compliance with the relevant laws and regulations that have a significant impact on the Group, and the Group's key relationships with its employees, customers and suppliers, can be found in the section of "Corporate Governance Report" of the annual report. These discussions form part of the Directors' Report.

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 98 to 99 of the annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: final dividend of HK$0.0097, equivalent to approximately RMB0.0081, per share).

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 180 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 2016. The aggregate purchase from the Group's five largest suppliers represented around 30% of the Group's total purchases for the year 2016, with the largest supplier contributing to 5% 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 32 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 102 to 103 of the annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2016, in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), the Company has no reserves available for distribution to shareholders.

DONATIONS

During the year ended 31 December 2016, the Group had made approximately RMB648,000 charitable donations in cash.

DIRECTORS

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

Executive Directors

Mr. Wang Hong Jun *(Chief Executive Officer)* (resigned on 8 December 2016)
Mr. Qin Hengde *(Chief Executive Officer)* (appointed on 8 December 2016)
Mr. Harry Yang

Non-Executive Directors

Mr. Liu De Shu *(Chairman)* (resigned on 8 March 2016)
Mr. Ning Gao Ning *(Chairman)* (appointed on 8 March 2016 and resigned on 8 December 2016)
Mr. Zhang Wei *(Chairman)* (appointed on 8 December 2016)
Mr. Yang Lin
Dr. Stephen Francis Dowdle
Ms. Xiang Dandan

Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward
Mr. Lu Xin
Mr. Tse Hau Yin, Aloysius

In accordance with the bye-laws of the Company, Mr. Yang Lin, Ms. Xiang Dandan and Mr. Lu Xin 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 37 to 42 of the annual report.

DISCLOSURE OF INFORMATION OF DIRECTORS

Pursuant to the disclosure requirements under rule 13.51B(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the changes/update of information of Directors are as follows:

1. The total cash compensation received by Mr. Wang Hong Jun, the then Executive Director and Chief Executive Officer of the Company, and Mr. Harry Yang, Executive Director of the Company, for the year ended 31 December 2016 are set out in note 10 to the consolidated financial statements.

2. Mr. Tse Hau Yin, Aloysius, Independent Non-executive Director of the Company, resigned as an independent non-executive director of Daohe Global Limited (formerly known as Linmark Group Limited) on 21 December 2016.

DIRECTORS' SERVICE CONTRACTS

On 15 May 2014, Mr. Wang Hong Jun, the then Executive Director and Chief Executive Officer of the Company, entered into a service contract with the Company for a term of three years. Subsequently on 8 December 2016, Mr. Wang Hong Jun resigned from the positions and on the same date, Mr. Qin Hengde was appointed as Executive Director and Chief Executive Officer of the Company. Further, on 16 February 2017, Mr. Qin entered into a service contract with the Company for a term of three years. Mr. Harry Yang, Executive Director of the Company, had also renewed his service contract with the Company for a term of three years on 15 May 2014.

Pursuant to the terms stipulated in the service contracts of Mr. Wang, Mr. Qin 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, Mr. Qin Hengde or Mr. Harry Yang prior to its expiry, Mr. Wang, Mr. Qin 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 2016, 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules, were as follows:

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

As at 31 December 2016, 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 enable the Group to recruit and retain senior executives and key employees, attract human resources that are valuable to the Group and any invested entity and motivate employees' performance measurable against key drivers of value to shareholders. On 28 June 2007, the Company 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. The scope of participants under the Share Option Scheme encompasses employees, proposed employees, directors (but excluding independent non-executive directors) of the Company and its subsidiaries, and the invested entities.

Under the Share Option Scheme, the Board may, with respect to each grant of share options, determine the exercise price in accordance with the requirements under rule 17.03(9) of the Listing Rules, the vesting schedule (including any minimum holding period), and any performance targets that apply to the share options. A consideration of HK$1 is payable on acceptance of the offer of grant of an option and is payable within 30 days from the date of such offer.

The total number of shares in respect of which options may be granted under the Share Option Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date of passing of the relevant ordinary resolution of the Company regarding the Share Option Scheme. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or any of their respective associates (as defined under the Listing Rules) in the 12-month period up to and including the date of such grant in excess of 0.1% of the Company's share capital in issue or with an aggregate value in excess of HK$5,000,000 must be approved in advance by the Company's shareholders.

The Share Option Scheme will remain in force for a period of 10 years commencing on 28 June 2007. As at 31 December 2016, the remaining life of the Share Option Scheme is approximately 0.6 years.

As at 31 December 2016, the total number of option shares available for grant under the Share Option Scheme is 572,228,672, representing approximately 8.15% of the Company's shares in issue as at the reporting date. For the year ended 31 December 2016, no share option under the Share Option Scheme was granted. As at 1 January 2016 and 31 December 2016, no share option was outstanding.

Save as disclosed above, as at 31 December 2016, 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 and as at 31 December 2016, was the Company or any of its subsidiaries or holding companies or the subsidiaries of the holding companies a party to any arrangement the object of which is to enable the Directors or chief executives of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debt securities of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, other than the Directors or chief executives of the Company, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO showed that, the following shareholders had notified the Company of the relevant interests in the issued share capital of the Company:

Name of shareholder	Number of issued ordinary shares held – long position	Percentage of the issued share capital of the Company
Sinochem Group (Note 1)	3,698,660,874	52.65%
Sinochem Corporation (Note 1)	3,698,660,874	52.65%
Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") (Note 2)	3,698,660,874	52.65%
Potash Corporation of Saskatchewan Inc. ("PotashCorp") (Note 3)	1,563,312,141	22.26%

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

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

Note 3: These shares represent the corporate interest of PotashCorp held through its wholly-owned subsidiary, PCS (Barbados) Investment Company Limited.

Save as disclosed above, other than the Directors or chief executives of the Company, the Company has not been notified of any other relevant interests or short positions held by any other person in the issued share capital of the Company as at 31 December 2016.

DIRECTORS OR THEIR ASSOCIATED ENTITIES' INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed herein, no other transactions, arrangements or contracts of significance, to which the Company or any of its subsidiaries was a party and in which a Director of the Company or any of their associated entities 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 2016, 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 2016, the Group conducted the following continuing connected transactions, which are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of the following continuing connected transactions. When conducting the 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. Continuing Connected Transactions

For the year ended 31 December 2016, 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: The Company have followed the pricing policies and guidances established in these continuing connected transactions during the year.

A. Continuing Connected Transactions Subject to the 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 4 December 2015, Dohigh Trading and Sinochem Fertilizer, two indirect wholly-owned subsidiaries of the Company, entered into a sulphur and other fertilizer raw materials import framework agreement (the "Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would import sulphur and other fertilizer raw materials sourced by Dohigh Trading and sell them to Sinochem Fertilizer during the period from 1 January 2016 to 31 December 2016 (both days inclusive). Pursuant to the Sulphur Import Framework Agreement, Sinochem Group would import sulphur and other fertilizer raw materials sourced by Dohigh Trading only. 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 imported 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 were as follows: (i) the price 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 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. In determining the prevailing international market price and the domestic wholesale price at port, the parties generally make reference to weekly sulphur reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

The annual cap for the year ended 31 December 2016 in respect of the purchase of sulphur and other fertilizer raw materials by Sinochem Group from Dohigh Trading was US$160,000,000; the annual cap for the year ended 31 December 2016 in respect of sale of sulphur and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer was RMB1,200,000,000.

2) *New Sulphur Import Framework Agreement*

On 9 December 2016, Dohigh Trading and Sinochem Fertilizer entered into a sulphur, fertilizer and other fertilizer raw materials import framework agreement (the "New Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group will continue to import sulphur, fertilizer and other fertilizer raw materials sourced by Dohigh Trading and sell them to Sinochem Fertilizer during the period from 1 January 2017 to 31 December 2017 (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 the year ending 31 December 2017 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from Dohigh Trading is US$115,000,000; the annual cap for the year ending 31 December 2017 in respect of sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer is RMB880,000,000.

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 4 December 2015, 10 December 2015, 25 February 2016, 9 December 2016 and 16 February 2017, and the circulars dated 4 February 2016 and 23 January 2017 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 25 February 2016 and 16 February 2017, respectively.

2. The MOU between Sinochem Macao and Canpotex

On 12 January 2015, Sinochem Macao and Canpotex International Pte. Limited (on behalf of Canpotex) entered into the MOU, pursuant to which Sinochem Macao will continue to purchase Canadian potash from Canpotex during the period from 1 January 2015 to 31 December 2017. Under the MOU, Canpotex shall supply, and Sinochem Macao shall purchase, a minimum of 500,000 tonnes, 650,000 tonnes and 750,000 tonnes of red standard grade potash for the three years ending 31 December 2017, respectively. In addition to red standard grade potash, Sinochem Macao shall have the option to purchase from Canpotex a maximum of 800,000 tonnes of other grades of Canadian potash for each of the three years ending 31 December 2017. Under the circumstances specified in the MOU, Sinochem Macao shall have the exclusive right to sell red standard grade potash sourced from Canpotex in the PRC market.

According to the MOU, prices will be determined on a six-month basis through mutual negotiations between the parties with reference to the prevailing international market potash prices and competitive sea import prices to the PRC. If Sinochem Macao and Canpotex cannot reach final agreements on prices by certain specified dates under the MOU, both parties will be free to pursue business through alternative channels. In determining such prices, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

The annual caps for the three years ending 31 December 2017 in respect of the continuing connected transactions under the MOU are US$435,500,000, US$500,250,000, and US$550,250,000, respectively.

Sinochem Macao is an indirect wholly-owned subsidiary of the Company. Potash Corporation is a substantial shareholder of the Company. Canpotex, owned as to 33.33% by Potash Corporation, is 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 announcements dated 12 January 2015 and 17 March 2015, and the circular dated 26 February 2015 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 17 March 2015.

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

1) Fertilizer Sales Co-operation Framework Agreement

On 4 December 2015, Sinochem Macao and Sinochem Fertilizer, two indirect wholly-owned subsidiaries of the Company, entered into a fertilizer sales co-operation framework agreement (the "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 2016 to 31 December 2016 (both days inclusive). 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 products to Sinochem Fertilizer. Sinochem Group would also import a small amount of fertilizer products directly 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 were 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 domestic wholesale price at port.

In determining the prevailing international market price and the domestic wholesale price at port, the parties generally make reference to weekly reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

Under the Fertilizer Sales Co-operation Framework Agreement, the annual cap for the year ended 31 December 2016 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group was US$1,430,000,000; the annual cap for the year ended 31 December 2016 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group was RMB9,300,000,000.

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

On 9 December 2016, Sinochem Macao and Sinochem Fertilizer entered into a fertilizer sales co-operation framework agreement (the "New Fertilizer Sales Co-operation Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group will continue to import fertilizer products sourced by Sinochem Macao and sell them to Sinochem Fertilizer during the period from 1 January 2017 to 31 December 2017 (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.

Under the New Fertilizer Sales Co-operation Framework Agreement, the annual cap for the year ending 31 December 2017 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group is US$1,010,000,000; the annual cap for the year ending 31 December 2017 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group is RMB7,560,000,000.

Each of Sinochem Fertilizer and Sinochem Macao 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. 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%, 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 announcements dated 4 December 2015, 10 December 2015, 25 February 2016, 9 December 2016 and 16 February 2017, and the circulars dated 4 February 2016 and 23 January 2017 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 25 February 2016 and 16 February 2017, 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

1) UK Service Agreement

On 5 December 2013, Sinochem Macao, an indirect wholly-owned subsidiary of the Company, entered into a service agreement (the "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 should be US$8 per tonne of products purchased by Sinochem Macao from its suppliers and in respect of which Sinochem UK had provided services.

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.

2) New UK Service Agreement

On 9 December 2016, Sinochem Macao entered into a service agreement (the "New UK Service Agreement") with Sinochem UK, pursuant to which Sinochem UK will continue to provide local supplier relations and logistics services to Sinochem Macao in Europe at cost during the period from 1 January 2017 to 31 December 2019 (both days inclusive). Pursuant to the New UK Service Agreement, the fee payable by Sinochem Macao shall be between US$4 and US$10 per tonne.

Under the New UK Service Agreement, the annual cap for each of the three years ending 31 December 2019 in respect of the continuing connected transactions between Sinochem Macao and Sinochem UK is US$2,300,000.

Sinochem Macao is an indirect wholly-owned subsidiary of the Company. Sinochem UK is a wholly-owned subsidiary of Sinochem HK, which is the direct controlling shareholder of the Company. Sinochem UK is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions under the UK Service Agreement and the New 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 and the New 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, 9 December 2014 and 9 December 2016 published by the Company.

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

1) *Financial Service Framework Agreement*

On 9 December 2015, the Company and Sinochem Finance entered into a financial services framework agreement (the "Financial Services Framework Agreement") for a term from 1 January 2016 to 31 December 2016 (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 the China Banking Regulatory Commission (the "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 were determined by the standard rates as promulgated by the People's Bank of China from time to time or the prevailing market rates. The 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 would not exceed the service fee and relevant interest payable on such services under the same terms obtainable from independent commercial banks. No service fee was 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 maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with Sinochem Finance for the year ended 31 December 2016 was RMB356,000,000.

(ii) In respect of the Other Financial Services provided by Sinochem Finance, the annual cap for the year ended 31 December 2016 was RMB10,000,000.

2) *New Financial Service Framework Agreement*

On 9 December 2016, the Company entered into a financial services framework agreement (the "New Financial Services Framework Agreement") with Sinochem Finance, pursuant to which the Group will continue to utilize the financial services available from Sinochem Finance as it deems necessary during the period from 1 January 2017 to 31 December 2019 (both days inclusive). The terms of the New Financial Services Framework Agreement are substantially the same as those of the Financial Services Framework Agreement.

Under the New Financial Services Framework Agreement, the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for each of the three years ending 31 December 2019 is RMB320,000,000. In respect of the Other Financial Services, the Company expects that the annual cap for each of the three years ending 31 December 2019 is RMB10,000,000.

Sinochem Finance is a wholly-owned subsidiary of Sinochem Corporation, which is 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 and the New Financial Services Framework Agreement constitute continuing connected transactions of the Company. As the applicable percentage ratios 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 and the New 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 requirements but are exempt from the independent shareholders' approval requirement 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.90 of the Listing Rules, the continuing connected transactions involving the provision of loans are exempt from the reporting, announcement, annual review and independent shareholders' approval requirements.

For detailed information on the aforesaid transactions, please refer to the announcements dated 9 December 2015 and 9 December 2016 published by the Company.

6. Agrichemical Framework Agreement between Sinochem Fertilizer and Sinochem Group

1) Agrichemical Framework Agreement

On 8 December 2015, Sinochem Fertilizer and Sinochem Group (for and on behalf of its associates) entered into a framework agreement in relation to the purchase of agrichemical, seed and other related products (the "Agrichemical Framework Agreement") for a term from 1 January 2016 to 31 December 2016, pursuant to which the associates of Sinochem Group would sell to and/or purchase from Sinochem Fertilizer certain agrichemical, seed and other related products during the above term.

Pursuant to the Agrichemical Framework Agreement, prices of agrichemical, seed 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. In determining the fair market price for the purchase and sale of agrichemical, seed and other related products, the Group generally make reference to weekly reports published by certain independent commodity information providers such as Baichuan (百川資訊).

The annual cap for the year ended 31 December 2016 in respect of the continuing connected transactions under the Agrichemical Framework Agreement was RMB36,900,000 (including the annual cap of RMB35,900,000 for the purchase of agrichemical, seed and other related products by the Group from the associates of Sinochem Group, and the annual cap of RMB1,000,000 for the sale of agrichemical, seed and other related products by the Group to the associates of Sinochm Group).

2) *New Agrichemical Framework Agreement*

On 9 December 2016, Sinochem Fertilizer and Sinochem Group (for and on behalf of its associates) entered into a framework agreement in relation to the purchase of agrichemical, seed and other related products (the "New Agrichemical Framework Agreement"), pursuant to which the associates of Sinochem Group will continue to sell to and/or purchase from Sinochem Fertilizer certain agrichemical, seed and other related products during the period from 1 January 2017 to 31 December 2017 (both days inclusive). The terms of the New Agrichemical Framework Agreement are substantially the same as those of the Agrichemical Framework Agreement.

The annual cap for the year ending 31 December 2017 in respect of the continuing connected transactions under the New Agrichemical Framework Agreement is RMB11,250,000 (including the annual cap of RMB11,050,000 for the purchase of agrichemical, seed and other related products by the Group from the associates of Sinochem Group, and the annual cap of RMB200,000 for the sale of agrichemical, seed and other related products by the Group to the associates of Sinochem Group).

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 and the New 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 and the New 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 8 December 2015 and 9 December 2016.

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

1) Sulphur Purchase Framework Agreement

On 8 December 2015, Dohigh Trading and Sinochem Group entered into a framework agreement in relation to the purchase of sulphur and other fertilizer raw materials (the "Sulphur Purchase Framework Agreement"), pursuant to which Sinochem Group would purchase sulphur and other fertilizer raw materials from overseas markets through bidding process and sell them to Dohigh Trading during the period from 1 January 2016 to 31 December 2016 (both days inclusive). Sinochem Group would 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.

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. In determining the prevailing international market price, the parties generally make reference to weekly sulphur reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

Under the Sulphur Purchase Framework Agreement, the annual cap for the year ended 31 December 2016 in respect of the continuing connected transactions between Dohigh Trading and Sinochem Group was US$20,000,000.

2) *New Sulphur Purchase Framework Agreement*

On 9 December 2016, Dohigh Trading and Sinochem Group entered into a framework agreement in relation to the purchase of sulphur and other fertilizer raw materials ("New Sulphur Purchase Framework Agreement"), pursuant to which Sinochem Group will continue to purchase sulphur and other fertilizer raw materials from overseas markets through bidding process and sell them to Dohigh Trading during the period from 1 January 2017 to 31 December 2017 (both days inclusive). The terms of the New Sulphur Purchase Framework Agreement are substantially the same as those of the Sulphur Purchase Framework Agreement.

Under the New Sulphur Purchase Framework Agreement, the annual cap for the year ending 31 December 2017 in respect of the continuing connected transactions under the New Sulphur Purchase Framework Agreement is US$20,000,000.

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 and the New 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 continuing connected transactions contemplated under the Sulphur Purchase Framework Agreement and the New Sulphur Purchase 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 8 December 2015 and 9 December 2016 published by the Company.

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

On 28 August 2015, Sinochem Fertilizer and Quanzhou Petrochemical entered into a sales contract of solid industrial sulphur (the "Sales Contract"), pursuant to which Sinochem Fertilizer would purchase from Quanzhou Petrochemical solid industrial sulphur products during the period from 1 September 2015 to 31 December 2016. It was estimated that the total purchase volume of Sinochem Fertilizer would not exceed 58,000 tonnes. In particular, the purchase volume for the period from 1 September 2015 to 31 December 2015 would be no more than 16,000 tonnes, and the purchase volume for the year ended 31 December 2016 was expected to be no more than 42,000 tonnes.

The price of the solid industrial sulphur products supplied by Quanzhou Petrochemical to Sinochem Fertilizer would be the factory price of the products. The factory price would be determined based on the prevailing wholesale port price of the products after deducting the logistics expenses. In determining the factory price, the parties generally make reference to weekly sulphur reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

Under the Sales Contract, the annual caps for the period from 1 September 2015 to 31 December 2015 and the year ended 31 August 2016 in respect of the continuing connected transactions under the sales contract were RMB20,000,000 and RMB50,000,000, respectively.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. 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 28 August 2015 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 would supply MCP and MDCP products to PCS Sales during the period from 1 January 2015 to 31 December 2017.

Price of MCP and MDCP products will 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. In determining the international market price, the Group makes reference to the analysis provided by certain independent commodity information providers such as Argus Media or Baichuan (百川資訊), and monitors the impact of price changes in raw materials (such as sulphur and sulfuric acid) on the costs of the Group's products and the relationship between market supply and demand.

Under the MOU, the annual caps for the three years ending 31 December 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.

10. Lease Contract between Sinochem Fertilizer and Chemsunny

On 28 January 2015, Sinochem Fertilizer entered into a lease contract with Chemsunny, pursuant to which Sinochem Fertilizer (as the lessee) would lease the office spaces in Chemsunny World Trade Centre from Chemsunny (as the lessor) during the period from 1 January 2015 to 31 December 2017 (the "Lease Contract"). The rentals and the management fees of the Properties are RMB1,706,615.56 and RMB171,158.13 per month, respectively, payable by Sinochem Fertilizer on a quarterly basis.

The rentals and the management fees of the Properties are determined based on arm's length negotiations between the Group and Chemsunny on the prevailing market rates and on normal commercial terms. When determining the prevailing market rate, the Group has made reference to the rates of similar types of properties in the surrounding areas and the rates charged by Chemsunny to other tenants of Chemsunny World Trade Centre.

The annual cap (inclusive of the rentals, management fees and utility charges) for each of the three years ending 31 December 2017 in respect of the continuing connected transactions under the Lease Contract is RMB30,000,000.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Chemsunny is an indirect non wholly-owned subsidiary of Sinochem Group, which is the ultimate controlling shareholder of the Company. Chemsunny is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Lease 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 Lease 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 28 January 2015 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 2016 are set out below:

Name of Transactions			Currency	For the year ended 31 December 2016 Annual Caps ('000)	Annual Transacted Amount ('000)
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	160,000	76,100
	2)	Sinochem Fertilizer purchases sulphur and other fertilizer raw materials from Sinochem Group	RMB	1,200,000	568,070
2.	Sinochem Macao purchases Canadian potash from Canpotex		USD	500,250	62,605
3.	Fertilizer Sales Co-operation Framework Agreement				
	1)	Sinochem Macao supplies fertilizer products to Sinochem Group	USD	1,430,000	417,521
	2)	Sinochem Fertilizer purchases fertilizer products from Sinochem Group	RMB	9,300,000	3,129,073
Continuing Connected Transactions Exempted from the Independent Shareholders' Approval Requirement but Subject to the Reporting, Announcement and Annual Review Requirements					
4.	Sinochem UK provides services to Sinochem Macao		USD	2,300	2,198
5.	Financial Service Framework Agreement				
	1)	Maximum daily outstanding balance of deposits	RMB	356,000	155,057
	2)	Other Financial Services (save for the provision of loans to the Group)	RMB	10,000	2,943
6.	Sinochem Fertilizer purchases from/sells to Sinochem Group certain agrichemical and other related products		RMB	36,900	9,059
7.	Dohigh Trading purchases sulphur and other fertilizer raw materials from Sinochem Group		USD	20,000	1,173
8.	Sinochem Fertilizer purchases from Quanzhou Petrochemical solid industrial sulphur products		RMB	50,000	–
9.	PCS Sales purchases MCP and MDCP products from Sinochem Yunlong		USD	9,900	–
10.	Sinochem Fertilizer leases office spaces from Chemsunny		RMB	30,000	19,972

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 2016 have been entered into by the Group:

- in the ordinary and usual course of its business;
- on normal commercial terms or better; and
- according to the agreement governing them 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 Group;
- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and
- with respect to the aggregate amount of each of transactions, nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded the annual caps of such transactions as disclosed in the announcements 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

1. During the year, Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer", a subsidiary of the Company) completed several financing activities listed below:

   (i) The first tranche of the medium-term notes for the year of 2016 in an amount of RMB1 billion, with a term of three years and at a coupon rate of 3.50% per annum, was issued on 22 July 2016;

   (ii) The first tranche of super & short-term commercial paper for the year of 2016 in an amount of RMB1 billion, with a term of 120 days and at a coupon rate of 2.67% per annum, was issued on 15 August 2016;

   (iii) The second tranche of super & short-term commercial paper for the year of 2016 in an amount of RMB1 billion, with a term of 267 days and at a coupon rate of 2.90% per annum, was issued on 19 August 2016; and

   (iv) The third tranche of super & short-term commercial paper for the year of 2016 in an amount of RMB1 billion, with a term of 266 days and at a coupon rate of 2.90% per annum, was issued on 24 August 2016.

   The proceeds from the above issuance will be used to replenish the working capital and repayment of loans of the Company.

2. On 11 August 2016, Sinochem Fertilizer and Yunnan Yuntianhua Co., Ltd. ("Yuntianhua") entered into the equity transfer contract and the supplemental agreement, pursuant to which Sinochem Fertilizer agreed to transfer its 25% equity interest in Yunnan Three Circles-Sinochem-Mosaic Fertilizer Co., Ltd. to Yuntianhua for a consideration of RMB87,995,000. The disposal was completed in December 2016, and recorded a loss of RMB14,731,000 for the year ended 31 December 2016.

Save for the disclosures as above and in this report, the Company had no other major discloseable events during the year ended 31 December 2016.

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 2016 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 53.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 39 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

As approved in the relevant annual general meetings of the Company, KPMG was appointed as auditor of the Company since the year ended 31 December 2012.

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the forthcoming annual general meeting of the Company.

For and on behalf of the Board

Zhang Wei
Chairman

Hong Kong, 30 March 2017

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of Sinofert Holdings Limited

(Incorporated in Bermuda with limited liability)

Report on the audit of the consolidated financial statements

OPINION

We have audited the consolidated financial statements of Sinofert Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 98 to 179, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Assessing the carrying value of the investment in Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake")

Refer to note 19 to the consolidated financial statements and the accounting policies on page 110.

The key audit matter	How the matter was addressed in our audit
Qinghai Salt Lake is listed on the Shenzhen Stock Exchange. The carrying value of the Group's investment in Qinghai Salt Lake as at 31 December 2016 was RMB8,216 million, which exceeded the market value at that date. As at 31 December 2016 management conducted an impairment test to assess the recoverability of the carrying value of the investment in Qinghai Salt Lake. This was performed using a discounted cash flow model. A number of key judgements were made in determining the inputs into discounted cash flow model which included: • expected changes in future revenue and future direct costs; • the future revenue growth rate; • the discount rate applied to the projected future cash flows; and • inflation and terminal values. We identified assessing the carrying value of the investment in Qinghai Salt Lake as a key audit matter because of its significance to the consolidated financial statements and because assessing the key impairment assumptions involves a significant degree of management judgement, which may affect both the carrying value of the Group's investment in Qinghai Salt Lake as well as any impairment charge for the year, and may be subject to management bias.	Our audit procedures to assess the carrying value of the investment in Qinghai Salt Lake included the following: • discussing future operating plans with Qinghai Salt Lake's management, comparing Qinghai Salt Lake's budgeted operating revenue and profits with the assumptions used by management in its discounted cash flow analysis and comparing the estimated future selling prices of Qinghai Salt Lake's potash fertilizer and its chemical products with externally derived data and industry norms; • engaging our internal valuation specialists to assist us in evaluating the assumptions and judgements adopted by management in its discounted cash flow analysis relating to inflation, terminal values and the discount rate used to derive the recoverable amount of the investment in Qinghai Salt Lake. The evaluation included researching public information relating to inflation and terminal values and independently recalculating the discount rate applied with reference to those of other listed fertilizer companies; • comparing the actual results of Qinghai Salt Lake for the current year to forecasts prepared in previous periods to assess the historical accuracy of management's forecasting process, discussing any significant variances with management and considering the effect on the current year's forecast; • evaluating the sensitivity analysis prepared by management for each of the key assumptions, including selling prices and selling quantities, adopted in the discounted cash flow analysis and considering the possibility of error or management bias; and • considering whether the disclosures in the consolidated financial statements in respect of the impairment assessment reflected the risks inherent in the key assumptions with reference to the requirements of the prevailing accounting standards.

Assessing potential impairment of goodwill

Refer to note 17 to the consolidated financial statements and the accounting policies on page 111.

The key audit matter	How the matter was addressed in our audit
Goodwill arose in relation to the subsidiaries engaged in the fertilizer industry acquired by the Group in previous years. Management assesses annually whether goodwill may impaired by means of discounted cash flow forecasts prepared for each cash-generating unit to which goodwill has been allocated. Management's impairment assessment involves significant judgement, particularly in determining short and long term revenue growth, future profitability and the discount rates applied, all of which can be inherently uncertain. We identified assessing potential impairment of goodwill as a key audit matter because determining the key impairment assumptions involves a significant degree of management judgement and may be subject to management bias.	Our audit procedures to assess potential impairment of goodwill included the following: • evaluating the methodology applied by management its preparation of the discounted cash flow forecasts with reference to the requirements of the prevailing accounting standards; • discussing future operating plans with management and comparing the estimated revenue and profit used in the assumptions in the discounted cash flow forecasts with the budget approved by the directors; • engaging our internal valuation specialists to assist us in evaluating the key assumptions and judgements adopted by management in the discounted cash flow forecasts relating to inflation, terminal values and the discount rates applied. The evaluation included researching public information relating to inflation and terminal values and independently recalculating the discount rates applied with reference to those of other listed fertilizer companies; • evaluating the sensitivity analysis prepared by management for each of the key assumptions, including selling prices and selling quantities, adopted in the discounted cash flow forecasts and considering the possibility of error or management bias; • performing a retrospective review of last year's impairment assessment and comparing the forecast data with the current year's results to assess the reliability of management's forecasting process; and • considering the disclosures in the consolidated financial statements in respect of the impairment assessment and the risks inherent in the key assumptions with reference to the requirements of the prevailing accounting standards.

Revenue recognition

Refer to note 4 to the consolidated financial statements and the accounting policies on page 122.

The key audit matter	How the matter was addressed in our audit
The Group's revenue is principally generated from the sale of potash fertilizer, nitrogen fertilizer, phosphate fertilizer and compound fertilizer. The timing of revenue recognition depends on the terms of individual sales transactions and revenue is generally recognized when the fertilizers leave the Group's warehouses. Accordingly, there is a risk that revenue is recognized for sales of individual products before the significant risks and rewards of ownership of the goods sold have passed to the customers. We identified revenue recognition as a key audit matter because revenue is one of the key performance indicators of the Group and because there is an inherent risk that revenue could be recorded in an incorrect period or could be subject to manipulation in order to achieve financial targets and expectations.	Our audit procedures to assess the recognition of revenue included the following: • understanding and assessing the design, implementation and operating effectiveness of the key internal controls over the Group's systems which govern the revenue recognition; • inspecting sales contracts with customers on a sample basis to understand and assess the terms and conditions therein which may affect the recognition of revenue; • comparing the average selling prices of potash fertilizer, nitrogen fertilizer, phosphate fertilizer and compound fertilizer sold by the Group during the year with externally derived data and industry norms; • comparing sales transactions recorded just before and after the year end with the underlying goods delivery notes to assess if the related revenue had been recognized in the appropriate accounting period; and • scrutinizing all manual journal entries relating to revenue which were raised during the year, enquiring of management the reasons for such adjustments and inspecting underlying documentation on sample basis.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND OUR AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Ka Chun Dennis Yeung.

KPMG
Certified Public Accountants

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

30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Turnover	4(a)	**14,959,092**	26,121,488
Cost of sales		**(14,717,930)**	(24,452,400)
Gross profit		**241,162**	1,669,088
Other income and gains	5	**233,642**	357,651
Selling and distribution expenses		**(754,393)**	(772,787)
Administrative expenses		**(763,270)**	(605,332)
Other expenses and losses		**(3,310,574)**	(105,411)
Share of results of associates		**(8,290)**	32,220
Share of results of joint ventures		**(101,706)**	48,818
Finance costs	6	**(339,645)**	(274,098)
Loss on disposal of a joint venture		**(14,731)**	–
(Loss)/Profit before taxation	7	**(4,817,805)**	350,149
Income tax	8(a)	**(4,621)**	(147,602)
(Loss)/Profit for the year		**(4,822,426)**	202,547
(Loss)/Profit for the year attributable to:			
– Owners of the Company		**(4,635,885)**	220,855
– Non-controlling interests		**(186,541)**	(18,308)
		(4,822,426)	202,547

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

For the year ended 31 December 2016
(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
(Loss)/Profit for the year		**(4,822,426)**	202,547
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**112,306**	206,898
Changes in fair value of available-for-sale investments		**(20,603)**	38,554
Other comprehensive income for the year	9	**91,703**	245,452
Total comprehensive (expense)/income for the year		**(4,730,723)**	447,999
Total comprehensive (expense)/income attributable to:			
– Owners of the Company		**(4,544,182)**	466,307
– Non-controlling interests		**(186,541)**	(18,308)
		(4,730,723)	447,999
(Losses)/Earnings per share			
Basic (RMB)	13	**(0.6600)**	0.0314
Diluted (RMB)	13	**(0.6600)**	0.0314

The notes on pages 106 to 179 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 2016

(Expressed in Renminbi)

	Note	As at 31 December **2016** ***RMB'000***	 2015 *RMB'000*
Non-current assets			
Property, plant and equipment	*14*	**3,427,768**	3,876,167
Lease prepayments	*15*	**500,736**	513,844
Mining rights	*16*	**611,367**	643,673
Goodwill	*17*	**849,966**	829,752
Other long-term assets	*18*	**12,051**	10,202
Interests in associates	*19*	**8,707,156**	11,574,427
Interests in joint ventures	*20*	**374,004**	581,436
Available-for-sale investments	*21*	**498,437**	519,040
Advance payments for acquisition of property, plant and equipment		**19,787**	29,077
Deferred tax assets	*31*	**32,960**	44,740
		15,034,232	18,622,358
Current assets			
Inventories	*22*	**4,475,018**	6,312,327
Trade and bills receivables	*23*	**152,982**	348,097
Other receivables and advance payments	*24*	**1,546,933**	1,131,386
Loans to an associate	*25*	**670,000**	670,000
Lease prepayments	*15*	**13,810**	13,810
Other deposits		**–**	1,200
Bank balances and cash	*26*	**972,118**	639,851
		7,830,861	9,116,671
Current liabilities			
Trade and bills payables	*27*	**4,574,711**	5,997,402
Other payables and receipt in advance	*28*	**3,603,543**	1,993,382
Interest-bearing borrowings – due within one year	*29*	**540,000**	1,583,430
Short-term commercial paper	*30*	**2,000,000**	2,000,000
Tax liabilities		**11,052**	11,429
		10,729,306	11,585,643
Net current liabilities		**(2,898,445)**	(2,468,972)
Total assets less current liabilities		**12,135,787**	16,153,386

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2016
(Expressed in Renminbi)

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Non-current liabilities			
Interest-bearing borrowings – due after one year	*29*	**3,493,185**	2,690,835
Deferred income		**105,253**	107,125
Deferred tax liabilities	*31*	**220,648**	234,669
Other long-term liabilities		**47,128**	44,836
		3,866,214	3,077,465
NET ASSETS		**8,269,573**	13,075,921
CAPITAL AND RESERVES			
Issued equity	*32*	**8,267,384**	8,267,384
Reserves		**140,127**	4,759,933
Total equity attributable to owners of the Company		**8,407,511**	13,027,317
Non-controlling interests		**(137,938)**	48,604
TOTAL EQUITY		**8,269,573**	13,075,921

The consolidated financial statements on pages 98 to 179 were approved and authorized for issue by the board of directors on 30 March 2017 and are signed on its behalf by:

Zhang Wei
Director

Qin Hengde
Director

The notes on pages 106 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

(Expressed in Renminbi)

	Attributable to owners of the Company									
	Issued equity	Capital and other reserve	Statutory reserve	Investment revaluation reserve	Special reserve	Exchange reserve	Retained profits	Total	Non-controlling interests	Tota Equity
	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)*					
Balance at 1 January 2015	8,267,384	732,329	366,484	10,853	70,272	(840,287)	4,708,341	13,315,376	66,912	13,382,288
Profit/(Loss) for the year	–	–	–	–	–	–	220,855	220,855	(18,308)	202,547
Other comprehensive income for the year	–	–	–	38,554	–	206,898	–	245,452	–	245,452
Total comprehensive income/(expense) for the year	–	–	–	38,554	–	206,898	220,855	466,307	(18,308)	447,999
Maintenance and production fund *(note c)*	–	–	–	–	(15,804)	–	15,804	–	–	–
Dividends approved in respect of the previous year	–	–	–	–	–	–	(59,415)	(59,415)	–	(59,415)
Dilution in relation to deemed disposal of interest in an associate	–	(694,951)	–	–	–	–	–	(694,951)	–	(694,951)
Balance at 31 December 2015 and 1 January 2016	**8,267,384**	**37,378**	**366,484**	**49,407**	**54,468**	**(633,389)**	**4,885,585**	**13,027,317**	**48,604**	**13,075,921**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**–**	**(4,635,885)**	**(4,635,885)**	**(186,541)**	**(4,822,426)**
Other comprehensive income for the year	**–**	**–**	**–**	**(20,603)**	**–**	**112,306**	**–**	**91,703**	**–**	**91,703**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**(20,603)**	**–**	**112,306**	**(4,635,885)**	**(4,544,182)**	**(186,541)**	**(4,730,723)**
Maintenance and production fund *(note c)*	**–**	**–**	**–**	**–**	**2,648**	**–**	**(2,648)**	**–**	**–**	**–**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**–**	**(59,014)**	**(59,014)**	**–**	**(59,014)**
Share of an associate's net assets changes	**–**	**(16,610)**	**–**	**–**	**–**	**–**	**–**	**(16,610)**	**–**	**(16,610)**
Deregistration of a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1)**	**(1)**
Balance at 31 December 2016	**8,267,384**	**20,768**	**366,484**	**28,804**	**57,116**	**(521,083)**	**188,038**	**8,407,511**	**(137,938)**	**8,269,573**

Notes:

a. Capital and other 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; contributions from/distributions to the ultimate holding company, Sinochem Group ("Sinochem Group", established in the People's Republic of China (the "PRC")); the difference between the carrying amount of non-controlling interests acquired and the fair value of consideration paid and the share of the investee's net assets changes, other than profit or loss or other comprehensive income and distributions received.

b. 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.

c. Special 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 106 to 179 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016
(Expressed in Renminbi)

	2016 RMB'000	2015 RMB'000
Operating activities		
(Loss)/Profit before taxation	**(4,817,805)**	350,149
Adjustments for:		
Share of results of associates	**8,290**	(32,220)
Share of results of joint ventures	**101,706**	(48,818)
Dividend income from available-for-sale investments	**(4,287)**	(3,044)
Write-off of payables	**(3,699)**	(7,450)
Release of deferred income	**(8,332)**	(10,763)
Interest income	**(105,916)**	(138,488)
Interest income from an associate	**(36,046)**	(41,891)
Finance costs	**339,645**	274,098
Loss on disposal of an associate	**–**	57
Loss on disposal of a joint venture	**14,731**	–
Depreciation of property, plant and equipment	**364,683**	300,494
Impairment loss on interests in associates	**2,830,000**	–
Impairment loss on property, plant and equipment	**363,656**	28,216
Loss on disposal of property, plant and equipment	**4,648**	358
Release of lease prepayments	**13,108**	13,203
Amortization of mining rights	**32,306**	32,311
Amortization of other long-term assets	**5,652**	5,664
Write-down of trade receivables	**316**	5,735
Write-down of other receivables and advanced payments	**20,933**	13,511
Reversal of collectible receivables and advanced payments	**(197)**	(9,488)
Write-down of inventories	**59,381**	34,885
Changes in fair value of the financial liability	**–**	(25,633)
Operating cash flows before movements in working capital	**(817,227)**	740,886
Decrease/(Increase) in inventories	**1,820,507**	(362,642)
Decrease in trade and bills receivables	**284,145**	1,133,457
(Increase)/Decrease in other receivables and advance payments	**(427,351)**	126,621
Increase in deferred income	**6,460**	2,100
(Decrease)/Increase in trade and bills payables	**(1,497,385)**	1,290,849
Increase/(Decrease) in other payables and receipt in advance	**1,567,995**	(1,911,894)
Cash generated from operations	**937,144**	1,019,377
Income tax paid	**(7,239)**	(7,973)
Net cash generated from operating activities	**929,905**	1,011,404

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2016

(Expressed in Renminbi)

	Note	2016 RMB'000	2015 RMB'000
Investing activities			
Purchase of property, plant and equipment		**(276,556)**	(397,132)
Proceeds from disposals of property, plant and equipment		**8,000**	2,871
Acquisition of other long-term assets		**(7,501)**	(7,083)
Acquisition of interests in an associate		**–**	(3,903,420)
Placement of other deposits		**(8,167,500)**	(18,407,000)
Proceeds from withdrawal of other deposits		**8,168,700**	18,557,000
Collection of loan to an associate		**–**	30,000
Interest received		**105,964**	138,488
Interest received from an associate		**36,046**	41,891
Dividends received from associates		**12,560**	12,685
Dividends received from joint ventures		**3,000**	7,347
Dividends received from available-for-sale investments		**4,287**	3,044
Proceeds from disposal of an associate		**–**	12,825
Proceeds from disposal of a joint venture		**87,995**	–
Net cash used in investing activities		**(25,005)**	(3,908,484)
Financing activities			
Repayment of borrowings		**(12,840,129)**	(6,948,815)
Repayment of short-term commercial paper		**(3,000,000)**	–
Proceeds from new borrowings		**11,596,699**	8,347,834
Proceeds from short-term commercial paper		**3,000,000**	2,000,000
Proceeds from issue of bond		**1,000,000**	–
Interests paid		**(297,202)**	(273,314)
Dividends paid		**(61,383)**	(59,415)
Net cash (used in)/generated from financing activities		**(602,015)**	3,066,290
Net increase in cash and cash equivalents		**302,885**	169,210
Cash and cash equivalents at 1 January	26	**639,851**	462,890
Effect of foreign exchange rate changes		**29,382**	7,751
Cash and cash equivalents at 31 December	26	**972,118**	639,851

The notes on pages 106 to 179 form part of these financial statements.

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 Unit 4705, 47th 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 38.

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. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below.

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

(b) Basis of preparation of the financial statements

As at 31 December 2016, the Group's current liabilities exceeded its current assets by approximately RMB2.90 billion. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflows from operations and sufficient financing to meet its financial obligations as and when they fall due. Considering the Company's sources of liquidity and the unutilized bank facilities of approximately RMB20.92 billion as at 31 December 2016, the directors of the Company believe that adequate funding is available to fulfill the Group's debt obligations and capital expenditure requirements when preparing the financial statements for the year ended 31 December 2016. Accordingly, the financial statements have been prepared on a basis that the Group will be able to continue as a going concern.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The consolidated financial statements for the year ended 31 December 2016 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 a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(Expressed in RMB unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

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 2016 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*	1 January 2017
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
HKFRS 16, *Lease*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have impact on the consolidated financial statements.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, calculation of impairment of financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification of financial liabilities.

HKFRS 15, Revenue from contracts with customers

HKFRS 15 establishes a comprehensive framework for recognizing revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts. It also includes guidance on when to capitalize costs of obtaining or fulfilling a contract not otherwise addressed in other standards, and includes expanded disclosure requirements.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Changes in accounting policies (continued)

HKFRS 16, Leases

HKFRS 16 provides comprehensive guidance for the identification of lease arrangements and their treatment by lessees and lessors. HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognize and measure a lease liability at the present value of the minimum future lease payments and will recognize a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognizing rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognized on a systematic basis over the lease term.

The Group does not plan to early adopt the above new standards or amendments. Given the Group has not completed its assessment of their full impact on the Group's financial statements, their possible impact on the Group's results of operations and financial position has not been quantified.

(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 gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group 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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Associates and joint ventures (continued)

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)).

A decrease in interest in an equity-accounted investee while maintaining equity accounting can result from a dilution. The Group's policy is to recognize any gain or loss on dilution directly in equity, except when impairment indicators exist then the Group first assesses and recognizes any impairment loss in accordance with the accounting polices described in note 2(m).

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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)).

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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:

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

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

(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. Capitalization of these costs ceases and the construction in progress is transferred to property, plant and equipment when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided for in respect of construction in progress until it is completed and ready for its intended use.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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) Lease prepayments and other long-term assets

Lease prepayments 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 lease prepayments is charged to expenses on a straight-line base over the respective periods of the rights.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

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

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets

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

- property, plant and equipment;
- lease prepayments;
- mining rights;
- other long-term assets; and
- goodwill

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

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its fair value less costs 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).

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Impairment of assets (continued)

(ii) Impairment of other assets (continued)

– *Reversals of impairment losses*

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

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

(iii) Interim financial reporting and impairment

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

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.

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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Income tax (continued)

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

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(y) Related parties (continued)

(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).

(viii) The entity, or any member of a group of which it is apart, provides key management personnel services to the Group or to the Group's parent.

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.

(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, the 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. The directors of the Company reassess these estimates at the end of each reporting period. As at 31 December 2016, the carrying amount of inventories is RMB4,475,018,000 (2015: RMB6,312,327,000).

Depreciation of property, plant and equipment

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

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is RMB849,966,000 (2015: RMB829,752,000). Details of the recoverable amount calculation are disclosed in note 17.

Value-in-use estimation of interest in associates

The directors review both external and internal information to assess whether there are indications of possible impairment in interests in associates at the end of each reporting period. Should the indicators exist, the Group will determine the recoverable amount of the relevant interests, being the higher of fair value less costs of disposal or value-in-use. When value-in-use estimations are undertaken, management has to estimate the future cash flows expected from those interests and use suitable discount rates that are commensurate with the risks inherent in those cash flows. Uncertainty about any assumptions and estimates made in this connection could result in outcomes that may require a material adjustment to the carrying amount of interest in associates within the next financial year.

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:

	2016 *RMB'000*	2015 *RMB'000*
Potash Fertilizer	**3,629,552**	5,846,791
Nitrogen Fertilizer	**2,610,677**	6,481,523
Compound Fertilizer	**3,981,643**	6,485,623
Phosphate Fertilizer	**3,371,433**	5,678,588
MCP/MDCP	**775,542**	776,999
Others	**590,245**	851,964
	14,959,092	26,121,488

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

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 (loss)/profit represents the (loss) made/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, interet-bearing borrowings, short-term commercial paper and other unallocated liabilities.

4 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

2016

	Marketing *RMB'000*	Production *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue				
External revenue	13,423,666	1,535,426	–	14,959,092
Internal revenue	762,827	2,068,834	(2,831,661)	–
Segment revenue	14,186,493	3,604,260	(2,831,661)	14,959,092
Segment gross profit	137,487	103,675	–	241,162
Segment loss	(507,005)	(3,830,487)	–	(4,337,492)
Share of results of associates	944	(9,234)	–	(8,290)
Share of results of joint ventures	2,684	(104,390)	–	(101,706)
Unallocated expenses				(76,717)
Unallocated income				46,045
Finance costs				(339,645)
Loss before taxation				(4,817,805)
Assets				
Segment assets	6,727,528	5,671,921	–	12,399,449
Interests in associates	4,604	8,702,552	–	8,707,156
Interests in joint ventures	60,939	313,065	–	374,004
Available-for-sale investments				498,437
Deferred tax assets				32,960
Other unallocated assets				853,087
Consolidated total assets				22,865,093
Liabilities				
Segment liabilities	6,855,437	1,372,805	–	8,228,242
Deferred tax liabilities				220,648
Interest-bearing borrowings				4,033,185
Short-term commercial paper				2,000,000
Other unallocated liabilities				113,445
Consolidated total liabilities				14,595,520

4 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

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

2015

	Marketing *RMB'000*	Production *RMB'000*	Elimination *RMB'000*	Total *RMB'000*
Revenue				
External revenue	24,338,972	1,782,516	–	26,121,488
Internal revenue	1,321,926	3,618,542	(4,940,468)	–
Segment revenue	25,660,898	5,401,058	(4,940,468)	26,121,488
Segment gross profit	1,096,495	572,593	–	1,669,088
Segment profit/(loss)	534,937	(2,047)	–	532,890
Share of results of associates	1,003	31,217	–	32,220
Share of results of joint ventures	3,070	45,748	–	48,818
Unallocated expenses				(87,329)
Unallocated income				97,648
Finance costs				(274,098)
Profit before taxation				350,149
Assets				
Segment assets	7,644,690	6,541,244	–	14,185,934
Interests in associates	4,218	11,570,209	–	11,574,427
Interests in joint ventures	58,256	523,180	–	581,436
Available-for-sale investments				519,040
Deferred tax assets				44,740
Other unallocated assets				833,452
Consolidated total assets				27,739,029
Liabilities				
Segment liabilities	6,859,177	1,218,067	–	8,077,244
Deferred tax liabilities				234,669
Interest-bearing borrowings				4,274,265
Short-term commercial paper				2,000,000
Other unallocated liabilities				76,930
Consolidated total liabilities				14,663,108

4 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information

2016

	Marketing *RMB'000*	Production *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment loss and segment assets:				
Additions to non-current assets	9,716	290,358	7	300,081
Write-down of trade receivables	(78)	(238)	–	(316)
Write-down of other receivables and advanced payments	(19,765)	(1,168)	–	(20,933)
Reversal of collectible receivables	–	197	–	197
Impairment loss on property, plant and equipment	–	(363,656)	–	(363,656)
Impairment loss on interests in associates	–	(2,830,000)	–	(2,830,000)
Depreciation and amortization	(9,202)	(393,426)	(13)	(402,641)
Release of lease prepayments	–	(13,108)	–	(13,108)
Write-down of inventories	(44,977)	(14,404)	–	(59,381)
Loss on disposal of property, plant and equipment	(1,985)	(2,663)	–	(4,648)
Write-off of payables	2,968	731	–	3,699

4 TURNOVER AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information (continued)

2015

	Marketing *RMB'000*	Production *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Amounts included in the measures of segment profit/(loss) and segment assets:				
Additions to non-current assets	20,563	424,478	5	445,046
Write-down of trade receivables	–	(5,735)	–	(5,735)
Write-down of other receivables and advanced payments	–	(13,511)	–	(13,511)
Reversal of collectible receivables	–	9,488	–	9,488
Impairment loss on property, plant and equipment	–	(28,216)	–	(28,216)
Depreciation and amortization	(10,655)	(327,800)	(14)	(338,469)
Release of lease prepayments	–	(13,203)	–	(13,203)
Write-down of inventories	(31,255)	(3,630)	–	(34,885)
Loss on disposal of property, plant and equipment	(73)	(285)	–	(358)
Write-off of payables	4,256	3,194	–	7,450

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 available-for-sale investments and deferred tax assets is presented based on the geographical location of the assets.

	Revenue from external customers		Non-current assets	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
The PRC	**13,891,389**	24,564,894	**14,498,798**	18,054,864
Others	**1,067,703**	1,556,594	**4,037**	3,714
	14,959,092	26,121,488	**14,502,835**	18,058,578

5 OTHER INCOME AND GAINS

	Note	2016 RMB'000	2015 RMB'000
Rental income		**5,990**	5,197
Dividend income from available-for-sale investments	*a*	**4,287**	3,044
Interest income		**105,916**	138,488
Interest income from an associate		**36,046**	41,891
Government grants	*b*	**7,442**	26,733
Foreign exchange gain		**–**	43,416
Sales of semi-product, raw materials and scrapped materials		**6,018**	8,400
Release of deferred income		**8,332**	10,763
Insurance claims received		**18,837**	43,061
Write-off of payables		**3,699**	7,450
Others		**37,075**	29,208
		233,642	357,651

Notes:

a Amount represents dividend income from listed investments of RMB4,287,000 (2015: RMB3,044,000) and the Group did not receive any dividend income from unlisted investments (2015: nil).

b 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.

6 FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Interest on borrowings	**344,087**	298,182
Less: interest expense capitalized *(note)*	**(4,442)**	(24,084)
	339,645	274,098

Note: The capitalization rates used to determine the amount of borrowing costs eligible for capitalization related to construction of production lines are 5.00% (2015: 5.45%) for the year ended 31 December 2016.

7 (LOSS)/PROFIT BEFORE TAXATION

	Note	2016 RMB'000	2015 RMB'000
Director's emoluments	10	5,002	7,398
Other staff benefits	a	613,322	663,608
Total employee benefits expenses		618,324	671,006
Depreciation of property, plant and equipment		364,683	300,494
Release of lease prepayments		13,108	13,203
Amortization of mining rights		32,306	32,311
Amortization of other long-term assets		5,652	5,664
Auditors' remuneration		4,250	4,250
Operating lease charge – minimum lease payments	b	46,166	46,006
Loss on disposal of property, plant and equipment		4,648	358
Loss on disposal of an associate		–	57
Loss on disposal of a joint venture		14,731	–
Write-down of trade receivables		316	5,735
Write-down of other receivables and advanced payments		20,933	13,511
Write-down of inventories	c	59,381	34,885
Impairment loss on property, plant and equipment		363,656	28,216
Impairment loss on interests in associates		2,830,000	–
Reversal of collectible receivables		(197)	(9,488)
Foreign exchange loss		7,745	–

Notes:

a Contribution to retirement benefits scheme included in other staff benefits for the year ended 31 December 2016 is RMB75,715,000 (2015: RMB73,249,000).

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

c During the year ended 31 December 2016, write-down of inventories amounting to approximately RMB59,381,000 (2015: RMB34,885,000) 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.

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2016 *RMB'000*	2015 *RMB'000*
Provision for the year		
PRC Enterprise Income Tax	**(6,155)**	(3,216)
Under-provision in prior years		
PRC Enterprise Income Tax	**(707)**	(2,653)
Deferred tax		
Origination and reversal of temporary differences	**2,241**	(141,733)
	(4,621)	(147,602)

(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 2016 is calculated at 16.5% (2015: 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.

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

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

	2016 *RMB'000*	2015 *RMB'000*
(Loss)/Profit before taxation	**(4,817,805)**	350,149
Tax calculated at the applicable tax rate of 25%	**1,204,451**	(87,537)
Effect of different income tax rates	**52,589**	50,009
Tax effect of non-deductible expenses	**(15,626)**	(9,850)
Tax effect of non-taxable income	**335**	407
Tax effect of share of results of associates	**(2,073)**	8,055
Tax effect of share of results of joint ventures	**(25,427)**	12,205
Effect of prior year's tax losses and deductible temporary differences utilized during the year	**2,704**	4,881
Effect of tax losses and deductible temporary difference not recognized	**(1,220,867)**	(24,211)
Tax effect of write-down of deferred tax assets recognized in previous years	**–**	(98,908)
Under-provision in prior years	**(707)**	(2,653)
Income tax expense for the year	**(4,621)**	(147,602)

9 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2016 and 2015.

10 DIRECTORS' EMOLUMENTS

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2016

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(note a)*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Chairman					
Mr. NING Gao Ning *(note b)* (appointed on 8 March 2016 and resigned on 8 December 2016)	–	–	–	–	–
Mr. ZHANG Wei *(note b)* (appointed on 8 December 2016)	–	–	–	–	–
Executive directors					
Mr. WANG Hong Jun (resigned on 8 December 2016)	–	1,602	–	47	1,649
Mr. QIN Hengde (appointed on 8 December 2016)	–	111	–	4	115
Mr. Harry YANG	–	1,406	–	47	1,453
Non-executive directors					
Mr. YANG Lin *(note b)*	–	–	–	–	–
Dr. Stephen Francis DOWDLE *(note b)*	–	–	–	–	–
Ms. XIANG Dandan *(note b)*	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	476	–	–	–	476
Mr. LU Xin	334	–	–	–	334
Mr. TSE Hau Yin, Aloysius	476	–	–	–	476
	1,286	3,119	–	98	4,503
Rental expenses for directors					
Mr. Harry YANG					499
					5,002

10 DIRECTORS' EMOLUMENTS (CONTINUED)

2015

	Fees *RMB'000*	Salaries and other benefits *RMB'000*	Performance related incentive payments *RMB'000* *(note a)*	Retirement benefits scheme contribution *RMB'000*	Total *RMB'000*
Chairman					
Mr. LIU De Shu *(note b)* (resigned on 8 March 2016)	–	–	–	–	–
Executive directors					
Mr. WANG Hong Jun	–	1,664	1,514	44	3,222
Mr. Harry YANG	–	1,441	1,067	44	2,552
Non-executive directors					
Mr. YANG Lin *(note b)*	–	–	–	–	–
Dr. Stephen Francis DOWDLE *(note b)*	–	–	–	–	–
Ms. XIANG Dandan *(note b)*	–	–	–	–	–
Independent non-executive directors					
Mr. KO Ming Tung, Edward	437	–	–	–	437
Mr. LU Xin (appointed on 26 February 2015)	264	–	–	–	264
Mr. TSE Hau Yin, Aloysius	447	–	–	–	447
	1,148	3,105	2,581	88	6,922
Rental expenses for directors					
Mr. Harry YANG					476
					7,398

10 DIRECTORS' EMOLUMENTS (CONTINUED)

Notes:

a. The performance related incentive payments were determined with reference to the operating results of the Group, individual performance and relevant comparable market statistics during the year ended 31 December 2016 and 2015.

b. Mr. Ning Gao Ning, Mr. Zhang Wei, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan, being Non-executive directors of the Company, had agreed to waive their director's fee for the year ended 31 December 2016. The amount waived by Mr. Ning Gao Ning was HK$290,000 (equivalent to approximately RMB251,000), the amount waived by Mr. Zhang Wei was HK$25,000 (equivalent to approximately RMB22,000), and the amounts waived by Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan were HK$385,000 each (equivalent to approximately RMB333,000).

Directors' fee waived by Mr. Liu De Shu, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan were HK$385,000 each (equivalent to approximately RMB313,000) for the year ended 31 December 2015.

11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2015: two) were directors of the Company, whose emoluments are disclosed in note 10. The emoluments of the remaining three (2015: three) individuals were as follows:

	2016 ***RMB'000***	2015 *RMB'000*
Salaries and other benefits	**2,137**	2,142
Performance related incentive payment	**–**	1,916
Retirement benefits scheme contribution	**141**	132
	2,278	4,190

The emoluments were within the following bands:

	2016 **Number of individuals**	2015 *Number of individuals*
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	**–**	3
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	–
	3	3

12 DIVIDENDS

	2016 *RMB'000*	2015 *RMB'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.0097, equivalent to approximately RMB0.0081 per share (2015: HK$0.0104, equivalent to approximately RMB0.0082 per share)	**59,014**	59,415
No dividend proposed after the end of the reporting period (2015: HK$0.0097, equivalent to approximately RMB0.0081 per share)	**–**	56,898

13 (LOSSES)/EARNINGS PER SHARE

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

	2016 *RMB'000*	2015 *RMB'000*
(Loss)/Profit attributable to owners of the Company		
(Losses)/Profits for the purpose of basic/diluted (losses)/earnings per share	**(4,635,885)**	220,855

	2016 *'000 shares*	2015 *'000 shares*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic/diluted (losses)/earnings per share	**7,024,456**	7,024,456

14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipments RMB'000	Motor vehicles RMB'000	Furniture & fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
Cost						
At 1 January 2015	1,898,569	2,210,592	82,491	309,993	1,050,371	5,552,016
Exchange realignment	182	–	81	168	–	431
Additions	13,571	22,221	6,785	7,998	373,766	424,341
Transfer from construction in progress	26,154	22,571	–	4,058	(52,783)	–
Disposals	–	(2,006)	(8,505)	(4,867)	–	(15,378)
At 31 December 2015	1,938,476	2,253,378	80,852	317,350	1,371,354	5,961,410
At 1 January 2016	1,938,476	2,253,378	80,852	317,350	1,371,354	5,961,410
Exchange realignment	218	–	99	175	–	492
Additions	6,577	28,698	4,641	8,474	244,190	292,580
Transfer from construction in progress	363,172	867,040	–	8,766	(1,238,978)	–
Disposals	(3,616)	(28,622)	(24,401)	(17,474)	–	(74,113)
At 31 December 2016	**2,304,827**	**3,120,494**	**61,191**	**317,291**	**376,566**	**6,180,369**
Depreciation and impairment						
At 1 January 2015	(467,834)	(1,103,067)	(39,453)	(157,907)	–	(1,768,261)
Exchange realignment	(182)	–	(80)	(159)	–	(421)
Charge for the year	(84,203)	(189,329)	(9,288)	(17,674)	–	(300,494)
Impairment loss	(14,681)	(13,535)	–	–	–	(28,216)
Disposals	–	1,185	6,627	4,337	–	12,149
At 31 December 2015	(566,900)	(1,304,746)	(42,194)	(171,403)	–	(2,085,243)
At 1 January 2016	(566,900)	(1,304,746)	(42,194)	(171,403)	–	(2,085,243)
Exchange realignment	(218)	–	(98)	(168)	–	(484)
Charge for the year	(104,721)	(233,054)	(8,087)	(18,821)	–	(364,683)
Impairment loss	(209,105)	(153,851)	(308)	(392)	–	(363,656)
Disposals	2,749	25,874	17,009	15,833	–	61,465
At 31 December 2016	**(878,195)**	**(1,665,777)**	**(33,678)**	**(174,951)**	**–**	**(2,752,601)**
Net book value						
At 31 December 2016	**1,426,632**	**1,454,717**	**27,513**	**142,340**	**376,566**	**3,427,768**
At 31 December 2015	1,371,576	948,632	38,658	145,947	1,371,354	3,876,167

Certain property, plant and equipment were pledged to secure banking facilities granted to the Group as disclosed in note 29(c).

15 LEASE PREPAYMENTS

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

	2016 RMB'000	2015 RMB'000
Cost		
At 1 January	**676,091**	662,469
Additions	**–**	13,622
At 31 December	**676,091**	676,091
Accumulated amortization		
At 1 January	**(148,437)**	(135,234)
Charge for the year	**(13,108)**	(13,203)
At 31 December	**(161,545)**	(148,437)
Net book value		
At 31 December	**514,546**	527,654
Analysis for reporting purposes as		
Current assets	**13,810**	13,810
Non-current assets	**500,736**	513,844
	514,546	527,654

16 MINING RIGHTS

	2016 RMB'000	2015 RMB'000
Cost		
At 1 January	**768,140**	768,140
At 31 December	**768,140**	768,140
Accumulated amortization		
At 1 January	**(124,467)**	(92,156)
Charge for the year	**(32,306)**	(32,311)
At 31 December	**(156,773)**	(124,467)
Net book value		
At 31 December	**611,367**	643,673

17 GOODWILL

	2016 RMB'000	2015 RMB'000
Cost		
At 1 January	**829,752**	812,319
Exchange adjustments	**20,214**	17,433
Carrying amount		
At 31 December	**849,966**	829,752

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	
	2016	2015
	RMB'000	*RMB'000*
Marketing	**283,814**	265,823
Production		
– Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong")	**531,074**	531,074
– Others	**35,078**	32,855
	849,966	829,752

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 2017 approved by the directors of the Company. The growth rates for the first 3 years from 2017 are based on the relevant CGUs past performance and management's expectation for the market development and for the following years are based on steady growth rates.

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

	Marketing	**Production**
Discount rate	7.70%	11%-12%
Average growth rate for the first three years from 2017	18.29%	9.10%
Steady growth rate for the following years	5.05%	4.72%

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 2016.

18 OTHER LONG-TERM ASSETS

	2016 *RMB'000*	2015 *RMB'000*
Cost		
At 1 January	**41,762**	34,679
Additions	**7,501**	7,083
At 31 December	**49,263**	41,762
Accumulated amortization		
At 1 January	**(31,560)**	(25,896)
Charge for the year	**(5,652)**	(5,664)
At 31 December	**(37,212)**	(31,560)
Net book value		
At 31 December	**12,051**	10,202

Other long-term assets have estimated useful lives ranging from 2 years to 10 years. The costs are amortized on a straight-line basis over their respective estimated useful lives.

19 INTERESTS IN ASSOCIATES

	2016 *RMB'000*	2015 *RMB'000*
At the end of reporting period, cost of investment in associates:		
– Listed in the PRC	**4,886,066**	4,886,066
– Unlisted	**391,429**	391,429
Goodwill	**5,122,018**	5,122,018
Share of profits, net of dividends	**1,137,643**	1,174,914
Less: impairment loss *(note)*	**(2,830,000)**	–
	8,707,156	11,574,427
Fair value of listed investments	**7,266,668**	9,785,424

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

Note: Consistent with the accounting policies described in note 2(e), the directors first re-assessed the recoverable amount of the interest in Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake"). The recoverable amount was estimated with reference to the investment's value-in-use, which is derived by estimating the Group's share of the present value of the estimated future cash flows expected to be generated by Qinghai Salt Lake. 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 historical experience and expectations of future changes in the market. The directors of the Company estimated discount rates using pre-tax rates that reflect current market assessment of the time value of money and the risks specific relating to Qinghai Salt Lake. The key assumptions used in the value-in-use calculation for Qinghai Salt Lake include the point in time of the chemical production lines are ready for use, the expected utilization rate of the chemical production lines and the estimated discount rates which ranged from 10% to 13.9%. Since the value-in-use of Qinghai Salt Lake is lower than its carrying amount, an impairment loss amounting to RMB2,830 million was recognized by the Group at 31 December 2016.

(Expressed in RMB unless otherwise indicated)

19 INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 December 2016 and 2015, the associates of the Group are mainly listed below:

Name of entites	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
					2016	2015	2016	2015	
Qinghai Salt Lake 青海鹽湖工業股份有限公司	Incorporated	The PRC	The PRC	Ordinary	**20.52%**	20.52%	**20.52%**	20.52%	Production and sales of fertilizers
Guizhou Xinxin Industrial Holdings Group Co., Ltd. ("Xinxin Group") 貴州鑫新實業控股集團有限責任公司	Incorporated	The PRC	The PRC	Ordinary	**30%**	30%	**30%**	30%	Production and sales of phosphate rock
Guizhou Xinxin Coal Chemical Co., Ltd. ("Xinxin Chemical") 貴州鑫新煤化工有限責任公司	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
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

19 INTERESTS IN ASSOCIATES (CONTINUED)

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	
	2016	2015
	RMB'000	*RMB'000*
Gross amount of the associate		
Current assets	**15,060,877**	16,818,479
Non-current assets	**74,778,786**	71,000,252
Current liabilities	**(21,799,645)**	(20,131,769)
Non-current liabilities	**(37,321,537)**	(37,148,410)
Equity	**30,718,481**	30,538,552
– attributable to shareholders of the associate	**28,871,419**	28,967,012
– attributable to non-controlling interests	**1,847,062**	1,571,540
Revenue	**10,364,139**	10,882,222
Profit attributable to shareholders of the associate	**42,920**	129,940
Dividend received from the associate	**11,813**	12,234
Reconciled to the Group's interests in the associate		
Gross amounts of the net assets of the associate	**28,871,419**	28,967,012
Group's effective interest	**20.52%**	20.52%
Group's share of the net assets of the associate	**5,924,416**	5,944,031
Goodwill	**5,122,018**	5,122,018
Impairment loss on interest in the associate	**(2,830,000)**	–
Carrying amount in the consolidated financial statements	**8,216,434**	11,066,049

Aggregate information of associates that are not individually material:

	2016	2015
	RMB'000	*RMB'000*
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**490,722**	508,378
Aggregate amounts of the Group's share of those associates'		
(Loss)/Profit from continuing operation	**(17,098)**	24,056
Total comprehensive (expense)/income	**(17,098)**	24,056

20 INTERESTS IN JOINT VENTURES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Unlisted shares, at cost	**427,130**	488,793
Share of profits, net of dividends	**(53,126)**	92,643
	374,004	581,436

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:

Name of joint ventures	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2016	2015	
Tianjin Beifang ChemicalFertilizer Logistics and Delivery Co., Ltd. 天津北方化肥物流配送有限公司 *(note)*	The PRC	RMB3,000,000	**60%**	60%	Fertilizer logistics
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)*	The PRC	RMB51,000,000	**51%**	51%	Sales of pesticides

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

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:

	2016 *RMB'000*	2015 *RMB'000*
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	**374,004**	581,436
Aggregate amounts of the Group's share of those joint ventures'		
(Loss)/Profit from continuing operation	**(101,706)**	48,818
Total comprehensive (expense)/income	**(101,706)**	48,818

21 AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December	
	2016 *RMB'000*	2015 *RMB'000*
Available-for-sale investments comprise:		
– Listed equity securities	**110,250**	130,853
– Unlisted equity securities	**397,477**	397,477
Less: impairment losses	**(9,290)**	(9,290)
	498,437	519,040

At the end of the reporting period, all listed available-for-sale investments are stated at fair value determined by reference to the quoted market bid price from the relevant stock exchange.

The unlisted equity securities, representing investments in private entities, are subsequently measured at cost less impairment at the end of each reporting period, because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

22 INVENTORIES

Inventories in the consolidated statement of financial position comprise:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Fertilizer merchandise and finished goods	**4,016,472**	5,803,944
Raw materials	**361,912**	395,300
Work in progress	**51,228**	62,422
Consumables	**45,406**	50,661
	4,475,018	6,312,327

23 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade receivables	**60,581**	76,572
Less: allowance for doubtful debts *(note (b))*	**(7,937)**	(7,774)
	52,644	68,798
Bills receivables	**100,338**	279,299
Total trade and bills receivables	**152,982**	348,097

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	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**137,119**	285,558
More than 3 months but within 6 months	**10,974**	33,091
More than 6 months but within 12 months	**736**	1,914
Over 12 months	**4,153**	27,534
	152,982	348,097

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:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Balance at 1 January	**7,774**	11,527
Write-down of trade receivables	**316**	5,735
Reversal of collectible receivables	**–**	(9,488)
Write-off of uncollectible receivables	**(153)**	–
Balance at 31 December	**7,937**	7,774

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	
	2016	2015
	RMB'000	*RMB'000*
More than 3 months but within 6 months	**28**	7,134
More than 6 months but within 12 months	**736**	1,914
Over 12 months	**4,153**	27,534
Balance at 31 December	**4,917**	36,582

These trade receivables 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.

24 OTHER RECEIVABLES AND ADVANCE PAYMENTS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Other receivables	**186,057**	158,278
Advance payments	**1,021,998**	655,660
Deductible input VAT	**384,609**	345,817
Less: allowance for doubtful debts *(note)*	**(45,731)**	(28,369)
Other receivables and advance payments	**1,546,933**	1,131,386

24 OTHER RECEIVABLES AND ADVANCE PAYMENTS (CONTINUED)

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Balance at 1 January	**28,369**	14,858
Write-down of other receivables and advance payments	**20,933**	13,511
Reversal of collectible receivables	**(197)**	–
Write-off of uncollectible receivables	**(3,374)**	–
Balance at 31 December	**45,731**	28,369

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 5.5% (2015: 5.5%-6%) and is repayable within one year.

26 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% (2015: 0.35%) per annum.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash in hand	**107**	112
Cash at bank	**972,011**	639,739
	972,118	639,851

As at 31 December 2016, 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	
	2016	2015
	RMB'000	*RMB'000*
United States dollars ("US$")	**775,409**	129,134

27 TRADE AND BILLS PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade payables	**3,406,708**	4,614,655
Bills payables	**1,168,003**	1,382,747
Trade and bills payables	**4,574,711**	5,997,402

As at 31 December 2016, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Within 3 months	**3,635,023**	4,501,446
More than 3 months but within 6 months	**658,107**	1,318,698
More than 6 months but within 12 months	**86,081**	21,854
Over 12 months	**195,500**	155,404
	4,574,711	5,997,402

28 OTHER PAYABLES AND RECEIPT IN ADVANCE

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Payroll payable	**21,784**	84,691
Consideration payable for acquisition of Sinochem Yunlong	**230,000**	230,000
Others	**476,374**	320,819
Other payables	**728,158**	635,510
Receipt in advance	**2,875,385**	1,357,872
Other payables and receipt in advance	**3,603,543**	1,993,382

29 INTEREST-BEARING BORROWINGS

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

	As at 31 December	
	2016 **RMB'000**	2015 *RMB'000*
Bank loans, unsecured	**–**	673,430
Borrowings from Sinochem Group	**–**	200,000
Borrowings from Sinochem Finance Co., Ltd. ("Sinochem Finance")	**540,000**	60,000
Borrowings from Sinochem Hong Kong (Group) Co., Ltd. ("Sinochem HK")	**–**	850,000
Bonds *(note)*		
Principal amount	**3,500,000**	2,500,000
Less: unamortized transaction costs	**(6,815)**	(9,165)
	4,033,185	4,274,265

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.

On 22 July 2016, a PRC subsidiary of the Group issued the first tranche of the medium-term notes for the year of 2016 with an aggregate principal amount of RMB1 billion, with a maturity of three years at a rate of 3.5% per annum.

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

	As at 31 December	
	2016 **RMB'000**	2015 *RMB'000*
Carrying amount repayable:		
Within 1 year	**540,000**	1,583,430
More than 1 year, but within 5 years	**3,493,185**	2,690,835
	4,033,185	4,274,265
Less: amounts due within 1 year shown under current liabilities	**(540,000)**	(1,583,430)
Amounts shown under non-current liabilities	**3,493,185**	2,690,835

29 INTEREST-BEARING BORROWINGS (CONTINUED)

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

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Fixed-rate borrowings:		
Within 1 year	**540,000**	1,233,430
More than 1 year, but within 5 years	**3,493,185**	2,690,835
	4,033,185	3,924,265

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Variable-rate borrowings:		
Within 1 year	**–**	350,000

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:

	2016	2015
Fixed-rate borrowings	**2.10%~3.915%**	1.35%~4.82%
Variable-rate borrowings	**–**	3.915%

29 INTEREST-BEARING BORROWINGS (CONTINUED)

(c) Unutilized banking facilities

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Expiring within 1 year	**10,420,468**	9,019,183
Expiring beyond 1 year	**10,496,692**	11,149,816
	20,917,160	20,168,999

At 31 December 2016, certain property, plant and equipment with carrying values of approximately RMB4,374,000 (2015: property, plant and equipment of RMB7,951,000 and bills receivable of RMB5,000,000) were pledged to secure banking facilities and borrowings granted to the Group.

30 SHORT-TERM COMMERCIAL PAPER

One of the Group's subsidiaries issued a one-year commercial paper of RMB2 billion in the PRC debenture market on 19 October 2015. This commercial paper bears fixed interest rate of 3.4% per annum and interests are paid annually. The Group has fully settled the short-term commercial paper on 19 October 2016.

One of the Group's subsidiaries issued the first tranche of short-term commercial paper of RMB1 billion, with a term of 120 days in the PRC debenture market on 15 August 2016. This commercial paper bears fixed interest rate of 2.67% per annum and interests are paid at maturity. The Group has fully settled this short-term commercial paper on 13 December 2016.

One of the Group's subsidiaries issued the second and third tranche of short-term commercial papers of RMB1 billion respectively, with a term of 267 days and of 266 days in the PRC debenture market on 19 and 24 August 2016. The commercial papers bear fixed interest rate of 2.9% per annum and interests are paid at maturity. Interest payable for the current period was included in other payables.

31 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	
	2016	2015
	RMB'000	*RMB'000*
Deferred tax assets	**32,960**	44,740
Deferred tax liabilities	**(220,648)**	(234,669)
	(187,688)	(189,929)

(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	Unrealized profits in inventories	Impairments	Tax losses	Accumulated depreciation difference	Other	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	(246,118)	2,823	16,386	155,143	(100)	23,670	(48,196)
Credit/(charge) to profit or loss for the year	12,735	291	6,734	(149,096)	(609)	(11,788)	(141,733)
At 31 December 2015	(233,383)	3,114	23,120	6,047	(709)	11,882	(189,929)
At 1 January 2016	**(233,383)**	**3,114**	**23,120**	**6,047**	**(709)**	**11,882**	**(189,929)**
Credit/(charge) to profit or loss for the year	**12,735**	**(1,790)**	**(8,237)**	**(1,380)**	**1,325**	**(412)**	**2,241**
At 31 December 2016	**(220,648)**	**1,324**	**14,883**	**4,667**	**616**	**11,470**	**(187,688)**

31 DEFERRED TAX ASSETS/DEFERRED TAX LIABILITIES (CONTINUED)

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.

(b) Deferred tax assets not recognized

No deferred tax assets were recognized on the tax losses of approximately RMB6,326,218,000 (2015: RMB1,482,542,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable, among which RMB28,976,000 unrecognized tax losses has expired during 2016. Included in the unrecognized tax losses are losses of RMB5,702,816,000 that will expire before 31 December 2021 (2015: RMB865,121,000 that will expire before 31 December 2020). 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 RMB197,290,000 (2015: RMB173,210,000) at 31 December 2016.

32 ISSUED EQUITY

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
At 1 January/At 31 December		
Issue of new shares of par value of HK$0.10 each	**8,267,384**	8,267,384

The amount of issued equity of the Group as at 31 December 2016 and 2015 includes share capital and share premium in the consolidated statement of financial position.

32 ISSUED EQUITY (CONTINUED)

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

	2016			2015		
	Number of shares *'000*	Nominal value *HK$'000*	Equivalent to *RMB'000*	Number of shares *'000*	Nominal value *HK$'000*	Equivalent to *RMB'000*
Authorized:						
Ordinary shares of HK$0.10 each	80,000,000	8,000,000		80,000,000	8,000,000	
Ordinary shares of the Company, issued and fully paid:						
At 1 January/ At 31 December	7,024,456	702,446	691,750	7,024,456	702,446	691,750

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

No preference shares are issued at 31 December 2016 and 2015.

33 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.

34 FINANCIAL INSTRUMENT

(a) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, other deposits, trade and bills receivables, other receivables and advance payments, bank balances and cash, trade and bills payables, other payables and borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. There has been no significant change to the Group's exposure to these risks or the manner in which it manages and measures these risks. The management manages and monitors the Group's exposures to these risks to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

Several subsidiaries of the Group have foreign currency transactions, which expose the Group to currency risk. Since the monetary items denominated in foreign currencies are not significant, the Group considers the currency risk was insignificant and does not use any derivative contracts to hedge against its exposure to currency risk. The management manages its currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

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

	Liabilities		**Assets**	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
US$	**1,017,658**	1,350,582	**775,409**	129,134

34 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.

	2016			2015		
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *HK$'000*	Effect on other components of equity *RMB'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits *HK$'000*	Effect on other components of equity *RMB'000*
US$	10%	(24,225)	–	10%	(122,145)	–
	(10%)	24,225	–	(10%)	122,145	–

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 2015.

34 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 29 and 30 for details of these borrowings). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

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

Available-for-sale investments

If the prices of the respective listed equity instruments had been 10% (2015: 10%) higher/lower:

- investment valuation reserve/impairment losses would increase by approximately RMB11,025,000 (2015: RMB13,085,000) as a result of the increase/decrease in fair value of available-for-sale investments.

34 FINANCIAL INSTRUMENT (CONTINUED)

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

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2016 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. The directors of the Company consider that the Group has adequate credit control for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made against the irrecoverable amounts. In this regard, the directors of the Company believe that the Group's credit risk is significantly reduced.

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

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

Liquidity risk

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

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2016, the Group has available unutilized bank loan facilities of approximately RMB20,917,160,000 (2015: approximately RMB20,168,999,000). Details are set out in note 29(c).

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.

34 FINANCIAL INSTRUMENT (CONTINUED)

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

Liquidity risk (continued)

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.

	2016 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*	**Balance sheet carrying amount** *RMB'000*
Trade and bills payables	**4,574,711**	**–**	**–**	**4,574,711**	**4,574,711**
Other payables	**728,158**	**–**	**–**	**728,158**	**728,158**
Borrowings and short-term commercial paper	**2,733,222**	**3,795,000**	**–**	**6,528,222**	**6,033,185**
	8,036,091	**3,795,000**	**–**	**11,831,091**	**11,336,054**

	2015 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*	Balance sheet carrying amount *RMB'000*
Trade and bills payables	5,997,402	–	–	5,997,402	5,997,402
Other payables	635,510	–	–	635,510	635,510
Borrowings and short-term commercial paper	3,784,752	3,075,170	–	6,859,922	6,274,265
	10,417,664	3,075,170	–	13,492,834	12,907,177

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.

34 FINANCIAL INSTRUMENT (CONTINUED)

(b) Fair value

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

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

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments.

- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data.

	31 December 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Available-for-sale investments				
– Listed	**110,250**	**–**	**–**	**110,250**

	31 December 2015			
	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Available-for-sale investments				
– Listed	130,853	–	–	130,853

During the years ended 31 December 2016 and 2015, 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.

34 FINANCIAL INSTRUMENT (CONTINUED)

(b) Fair value (continued)

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

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:

	2016		2015	
	Carrying amount *RMB'000*	Fair value *RMB'000*	Carrying amount *RMB'000*	Fair value *RMB'000*
Financial liabilities	3,493,185	3,539,678	2,490,835	2,563,638

(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 and short-term commercial paper

The fair value of interest-bearing borrowings and short-term commercial paper 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 2016. The interest rates used are disclosed in note 29.

35 CONTINGENT LIABILITIES

At 31 December 2016 and 2015, the Group had no material contingent liabilities.

36 COMMITMENTS

(i) Capital commitment

	2016 RMB'000	2015 RMB'000
Contracted but not provided for		
– Property, plant and equipment	**75,917**	46,017
Authorized but not contracted for		
– Property, plant and equipment	**331,399**	546,315
– Investments in an associate and others	**500,000**	300,000
	907,316	892,332

(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:

	2016 RMB'000	2015 RMB'000
Within 1 year	**40,398**	44,617
More than 1 year, but within 5 years	**6,545**	28,339
Over 5 years	**1,739**	2,174
	48,682	75,130

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.

37 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Group during the year ended 31 December 2016 and 2015 were as follows:

Ultimate holding company

Sinochem Group
(中國中化集團公司)

Immediate holding company

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)
Sinochem Quanzhou Petrochemical Co., Ltd. ("Quanzhou Petrochemical")
(中化泉州石化有限公司)
Sinochem Finance
(中化集團財務有限責任公司)

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 Group
(貴州鑫新實業控股集團有限責任公司)
Yangmei Pingyuan
(陽煤平原化工有限公司)
Zhongwang Nongzi
(重慶市涪陵區眾旺農資有限公司)

Joint ventures

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)

37 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:

	2016 *RMB'000*	2015 *RMB'000*
Sales of fertilizers to		
Ultimate holding company *(note 1)*	**25,206**	327,545
Joint ventures	**144,231**	329,660
Associates	**13,453**	–
	182,890	657,205
Purchases of fertilizers from		
Ultimate holding company *(note 1)*	**116,323**	292,215
Joint ventures	**958,659**	1,292,864
Associates	**1,107,019**	1,578,306
A fellow subsidiary *(note 1)*	**–**	22,549
A subsidiary of a shareholder with significant influence over the Company	**–**	6,765
	2,182,001	3,192,699
Import service fee paid to		
Ultimate holding company	**3,458**	7,103
A fellow subsidiary *(note 1)*	**14,760**	14,504
	18,218	21,607
Office rental fee paid to		
Immediate holding company	**5,548**	5,210
A fellow subsidiary *(note 1)*	**21,912**	22,952
	27,460	28,162

37 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: (continued)

	2016	2015
	RMB'000	*RMB'000*
Consideration paid for acquiring interests in an associate	**–**	3,903,420
Loans to an associate	**670,000**	670,000
Repayments of loans to an associate	**670,000**	700,000
Interest income due from an associate	**36,046**	41,891
Loans from related parties		
A fellow subsidiary	**7,611,000**	390,000
Immediate holding company	**–**	2,750,000
Ultimate holding company	**1,299,445**	–
	8,910,445	3,140,000
Repayments of loans from related parties		
A fellow subsidiary	**7,131,000**	330,000
Immediate holding company	**850,000**	1,900,000
Ultimate holding company	**1,499,445**	–
	9,480,445	2,230,000
Interests expenses for loans from related parties		
A fellow subsidiary	**20,762**	4,019
Immediate holding company	**14,946**	33,208
Ultimate holding company	**4,437**	2,738
	40,145	39,965

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

37 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2016 *RMB'000*	2015 *RMB'000*
Trade receivable		
Sinochem Group	**14,324**	–
Other receivables		
Chemsunny Ltd.	**10,240**	9,858
Sinochem HK	**1,535**	1,437
Yangmei Pingyuan	**2,139**	6,774
	13,914	18,069
Advance payments		
Qinghai Salt Lake	**209,852**	19,519
Three Circles-Sinochem	**48,461**	–
Yangmei Pingyuan	**30,311**	12
Gansu Wengfu	**26,856**	–
	315,480	19,531
Loans to an associate		
Yangmei Pingyuan	**670,000**	670,000
Trade payables		
Sinochem Group	**–**	2,491,664
Three Circles-Sinochem	**–**	28,408
Yangmei Pingyuan	**73**	73
Xinxin Group	**4,966**	4,966
Gansu Wengfu	**–**	2,408
	5,039	2,527,519
Other payables		
Sinochem Group	**–**	446
Yangmei Pingyuan	**47,675**	47,675
	47,675	48,121

37 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	
	2016	2015
	RMB'000	*RMB'000*
Receipt in advance		
Sinochem Group	**–**	38
	–	38
Borrowings from related parties *(note 2)*		
Sinochem Group	**–**	200,000
Sinochem Finance	**540,000**	60,000
Sinochem HK	**–**	850,000
	540,000	1,110,000
Interests payable to related parties		
Sinochem Group	**–**	83
Sinochem Finance	**1,110**	470
Sinochem HK	**27,727**	12,780
	28,837	13,333

Note 2: Borrowings from Sinochem Finance are borrowed with a maturity period within 1 year at fixed interest rates from 2.10% to 3.92% per annum.

37 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Compensation of key management personnel

Key management personnel are Group's directors and 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:

	2016 *RMB'000*	2015 *RMB'000*
Salaries and other benefits	**4,807**	4,821
Performance related incentive payment	**–**	4,318
Retirement benefits scheme contribution	**330**	309
	5,137	9,448

The emoluments of senior executives were within the following bands:

	2016 *Number of individuals*	2015 *Number of individuals*
Nil to HK$1,000,000	**7**	–
HK$1,000,001 to HK$1,500,000	**–**	–
HK$1,500,001 to HK$2,000,000	**–**	7
HK$2,000,001 to HK$2,500,000	**–**	–
HK$2,500,001 to HK$3,000,000	**–**	–
HK$3,000,001 to HK$3,500,000	**–**	–
	7	7

37 RELATED PARTY TRANSACTIONS (CONTINUED)

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

The Group operates in an economic environment currently predominated by entities controlled, jointly controlled or significantly influenced by 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.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade and bills receivables	**3,846**	2,966
Other receivables and advance payments	**290,440**	222,707
Trade and bills payables	**149,072**	343,658
Other payables and receipt in advance	**238,496**	76,874

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

	2016	2015
	RMB'000	*RMB'000*
Sales of fertilizers	**1,202,434**	4,586,597
Purchases of fertilizers	**2,172,692**	7,627,972

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other banking facilities, with certain banks that are government-related entities in its ordinary course of business. In view of the nature of those banking transactions, the directors of the Company are of the opinion that separate disclosure would not be meaningful.

Except for amounts and transactions disclosed above, the directors of the Company are of the opinion that transactions with other government-related entities are not significant to the Group's operations.

(Expressed in RMB unless otherwise indicated)

38 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2016 and 2015:

Name of subsidiaries	Place of incorporation/registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2016	2015	
Directly held:					
China Fertilizer (Holdings) Co., Ltd.	British Virgin islands ("BVI")	US$10,002	**100%**	100%	Investment holding
Wah Tak Fung (B.V.I.) Limited	BVI	US$1,000,000	**100%**	100%	Investment holding
Calorie Ltd.	Hong Kong	HK$34,000	**100%**	100%	Investment holding
Indirectly held:					
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	RMB10,600,000,000	**100%**	100%	Fertilizer trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	HK$15,000,000	**100%**	100%	Fertilizer trading
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務 有限公司)	Macao SAR	MOP100,000	**100%**	100%	Fertilizer trading
Suifenhe Xinkaiyuan Trading Co., Ltd. *(note c)* (綏芬河新凱源貿易有限公司)	The PRC	RMB5,000,000	**100%**	100%	Fertilizer trading
Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd. *(note c)* (福建中化智勝化肥有限公司)	The PRC	RMB47,000,000	**53.19%**	53.19%	Sales and manufacturing of fertilizers
Sinochem Chongqing Fuling Chemical Fertilizer Co., Ltd. *(note c)* (中化重慶涪陵化工有限公司)	The PRC	RMB148,000,000	**60%**	60%	Sales and manufacturing of fertilizers
Sinochem Yunlong *(note c)* (中化雲龍有限公司)	The PRC	RMB500,000,000	**100%**	100%	Sales and manufacturing of feeds stuff

(Expressed in RMB unless otherwise indicated)

38 PRINCIPAL SUBSIDIARIES (CONTINUED)

Name of subsidiaries	Place of incorporation/registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2016	2015	
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
Sinochem Hainan Crop Science and Technology Co., Ltd. *(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.

39 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.

40 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	
	2016	2015
	RMB'000	*RMB'000*
Investments in subsidiaries	**4,565,557**	6,398,138
Amount due from subsidiaries	**6,537,308**	6,166,184
Bank balances and cash	**1,724**	859
Other current assets	**886,864**	866,137
TOTAL ASSETS	**11,991,453**	13,431,318
Other current liabilities	**2,229**	8,078
NET ASSETS	**11,989,224**	13,423,240
CAPITAL AND RESERVE		
Issued equity	**8,267,384**	8,267,384
Capital reserve	**7,416,535**	7,416,535
Exchange reserve	**(1,429,856)**	(2,335,863)
(Accumulated losses)/Retained profits	**(2,264,839)**	75,184
TOTAL EQUITY *(note)*	**11,989,224**	13,423,240

Note: The decrease in the exchange reserve of RMB906,007,000 was due to exchange differences on translation of the Company's financial statements. The decrease in the retained profits of RMB2,340,023,000 was attributable to the Company's loss for the year of RMB2,281,009,000 and dividends paid to the owners of the Company in year 2016 of RMB59,014,000.

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Turnover	**14,959,092**	26,121,488	28,311,086	34,721,849	41,190,137
(Loss)/Profit before tax	**(4,817,805)**	350,149	272,122	(281,382)	1,022,365
Income tax	**(4,621)**	(147,602)	(136,700)	(343,424)	(98,711)
(Loss)/Profit for the year	**(4,822,426)**	202,547	135,422	(624,806)	923,654
(Loss)/Profit attributable to					
– Owners of the Company	**(4,635,885)**	220,855	229,339	(476,340)	878,369
– Non-controlling interests	**(186,541)**	(18,308)	(93,917)	(148,466)	45,285
	(4,822,426)	202,547	135,422	(624,806)	923,654

	At 31 December				
	2016	2015	2014	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	**22,865,093**	27,739,029	25,210,984	23,829,283	26,409,804
Total liabilities	**(14,595,520)**	(14,663,108)	(11,828,696)	(10,536,306)	(12,287,171)
Net assets	**8,269,573**	13,075,921	13,382,288	13,292,977	14,122,633

中化化肥控股有限公司
SINOFERT HOLDINGS LIMITED

Room 4705, 47/F., Office Tower,
Convention Plaza, 1 Harbour Road,
Wanchai, Hong Kong

This annual report is printed on environmental friendly paper