



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

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

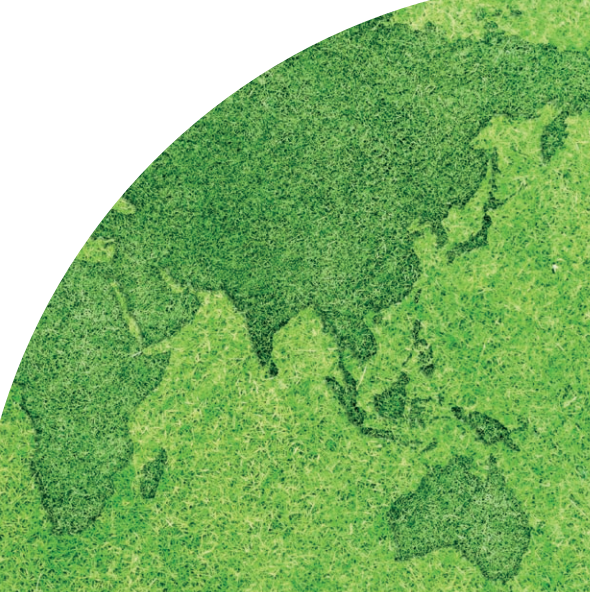


## Nurturing China's Agriculture Sector

# 2018

Annual Report





**SINOFERT  
HOLDINGS  
LIMITED**





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# COMPANY PROFILE AND CORPORATE INFORMATION

## COMPANY PROFILE

Sinofert Holdings Limited (the “Company”) successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries in July 2005, and became a listed company (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/dicalcium phosphate (MCP/DCP).

Benchmarked by the turnover of 2018, the Group is:

- China’s leading fertilizer distribution service provider;
- a large supplier of imported fertilizers in China;
- China’s leading fertilizer manufacturer.

The Group’s competitive strengths are mainly reflected in:

- its business model of centering on distribution services and integrating production and distribution;
- China’s leading distribution network of agricultural inputs;
- its abilities to produce and distribute complete varieties of fertilizer products, including nitrogen, phosphate, potash, compound fertilizers and new fertilizers;
- its strategic alliances with various 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 MCP/DCP manufacturers in Asia.

The Group strives to become China’s leading technology-based marketing and service provider of crop nutrition. 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 Co., Ltd., which is one of China’s earliest qualifiers of Fortune Global 500, and qualified for the 28th time by ranking the 98th in 2018. The second largest shareholder of the Company is Nutrien Ltd., which is the largest potash producer in the world.



## CORPORATE INFORMATION

### Board of Directors

#### **Executive Directors**

Mr. QIN Hengde (*Chief Executive Officer*)

Mr. Harry YANG

#### **Non-Executive Director**

Mr. YANG Lin

#### **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. LU Xin (re-designated as Chairman on 28 March 2018)

Mr. KO Ming Tung, Edward (ceased to be Chairman on 28 March 2018)

Mr. TSE Hau Yin, Aloysius

Mr. YANG Lin (appointed as a member on 28 March 2018)

#### **Nomination Committee**

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

Mr. LU Xin

Mr. TSE Hau Yin, Aloysius

Mr. Harry YANG

#### **Corporate Governance Committee**

Mr. QIN Hengde (*Chairman*)

Mr. Harry YANG

Ms. CHEUNG Kar Mun, Cindy

Ms. CAO Jing

### 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

China Everbright Bank

Bank of Tokyo-Mitsubishi

Rabobank International

The Hongkong and Shanghai Banking Corporation

## COMPANY PROFILE AND CORPORATE INFORMATION

### Registered Office

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

### Principal Place of Business

Unit 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](http://www.sinofert.com)

### Share Listing

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

### Investor Relations

#### **Hong Kong**

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Beijing 100031, PRC



# FINANCIAL HIGHLIGHTS

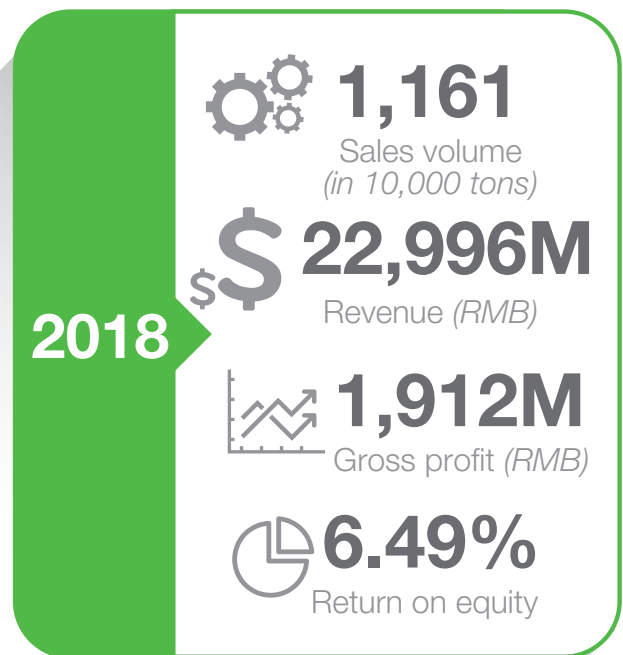
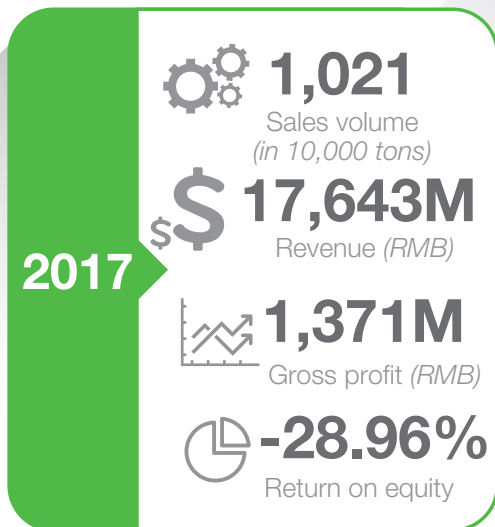
## FINANCIAL HIGHLIGHTS

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

	2018	2017
Sales volume (in 10,000 tons)	1,161	1,021
Revenue	22,996,328	17,643,812
Gross profit	1,912,927	1,371,623
Profit/(loss) before taxation	451,132	(2,269,946)
Profit/(loss) attributable to owners of the Company	460,486	(2,207,504)
Basic earnings/(loss) per share (RMB)	0.0656	(0.3143)
Return on equity (Note 1)	6.49%	(28.96%)
Debt to equity ratio (Note 2)	42.61%	77.23%

Note 1: Calculated on the basis of profit/(loss) 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







## CHAIRMAN'S STATEMENT



# Growing With China's Modern Agriculture

To shareholders,

**On behalf of the Board of Directors (the “Board”), 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 2018 to all the shareholders.**

The year 2018 saw a modest recovery in the fertilizer industry as a result of the supply-side structural reform being implemented in China's agricultural sector, amidst continuous excess capacity and intensified market competition. The Group was steadfast in carrying out its strategies set forth at the beginning of the year by actively adopting effective measures and grasping market opportunities, and achieved satisfactory results. The Basic Fertilizers Division optimized purchase operations by focusing on core suppliers while tapping into the demand of the downstream customers through upgrading the customer relation management system, achieving a continuous growth in both sales volume and profit on top of the high levels made in previous years. In 2018, sales volume attributable to the Basic Fertilizer Division increased 13.91% and profit before taxation rose to RMB642 million, up by 10.88%. Purchase volume from strategic core suppliers amounted to 66% of the total, while sales volume to industrial customers rose to 60% of total sales. Operations of the Distribution Division were thriving, the DTS channel building strategy began to take roots, technological service was strengthened, and overall channel service capacity was systematically expanded by recruiting specialized agrotech talents, agrotech training and contests as well as rank review of the agrotech teams.

Efforts were also made to promote brand building and brand recognition so as to enable brand name to be the engine propelling future growth. New technologies were applied to help readjusting the product structure, while promotional resources were concentrated to the marketing of differentiated products, which was up by 39% year on year. All the Group's compound fertilizer plants recorded a profit in 2018, and the construction of a new compound fertilizer project with nameplate capacity of 500,000 mt started in the Jiangling Industrial Park. During the reporting period, sales volume attributable to the Distribution Division increased 14.18% and profit before taxation rose to RMB70 million. Work in HSE management and assets optimizing among various production subsidiaries of the Group continued to improve, with Sinochem Yunlong Co., Ltd. and Sinochem Chongqing Fuling Chemicals Co., Ltd. (“Sinochem Fuling”) achieving steady increase in output, and Sinochem Jilin Changshan Chemical Co., Ltd. able to run steadily and efficiently and reaching designed capacity. Rapid progress was also made in the expansion of the specialized R&D team in crop nutrient, with the internationally advanced state-of-the art Linyi R&D Center will be put into operation in May 2019. Cooperation on R&D work with outside research institutes and universities was also comprehensively upgraded, with a considerable number of newly developed



compound fertilizer formulas and differentiated products brought into commercial promotions, in addition to setting up a technological reserve for the Group.

In 2018, the Group achieved total sales volume of 11.61 million tons, up by 13.71% year on year; sales revenue rose to RMB22,996 million, up by 30.33%; and profit attributable to owners of the Company was RMB460 million. Major performance index of the Group remained in good standing, and the risk index passed the stable rating requirement. Among them, total expense decreased year on year and was within the budget range; the assets-liabilities structure was stable; and overall inventories were lower and turnover rate increased year on year.

Despite the challenges of a changing market, the Board of Directors of the Company has always adhered to the goal of maximizing shareholder value, continuously improving corporate governance and optimizing the management system. In accordance with the Corporate Governance Code of The Stock Exchange of Hong Kong Limited, the Company's Board of Directors held four regular meetings in 2018 at which the Company's annual report, interim report and major investment projects were reviewed and approved. Meanwhile, the Board also reviewed and approved other issues such as major investments and connected transactions through other means. The Audit Committee, Remuneration Committee, Nomination Committee and Corporate Governance Committee of the Board had all fulfilled their respective duties and rights as entrusted by the Board on such issues as improving internal control, optimizing the remuneration and motivation systems and perfecting corporate governance structure.

In 2019, the Chinese fertilizer industry is expected to remain difficult. Industry consolidation and reshuffling would be intensified, and various fertilizer enterprises would face the question of to be or not to be. The government continues to attach great emphasis on agricultural modernization, as expressed in the latest Circular No. 1 titled "Opinion of the CPC Central Committee and the State Council on Adhering to Developing Agriculture and the Rural Areas with First Priority and Doing a Better Job in the Work Concerning Agriculture, the Farmers and the Rural Areas", which was officially announced on 19 February 2019, being the 16th of such documents since the beginning of the new century. This would create important opportunities for the Group in our innovative operations and business transition.

In 2019, the Group will focus on the nation's Rural Revitalization Strategy, follow the trend of agricultural supply-side reform and the rapidly changing agricultural structure, make business transition and upgrading the core work, take root in modern agriculture, streamline the operational structure and renovate our business model so as to achieve stable and sustainable growth. The Basic Fertilizers Division will work to deepen its cooperation with existing suppliers, gradually improve its resource deployment abilities to relatively weak regional market, and expand and diversify its purchase channels. In those regions where our market presence is weak or even blank, efforts will be made to build new channels, formulate differentiated service packages for improved services for the customers. The e-commerce platform, Fertex, for fertilizer trading on line will be introduced and actively set up to create sustainable growth of the Basic Fertilizer Division. Meanwhile, the Distribution Division will carry out the DTS in-depth channel building strategy on full scale, readjust its product structure by focusing on specific needs of different crops, accumulate standardized planting technical solutions, and completely improve the profitability of differentiated products. Work will be done to achieve better internal synergy effect and empower the production enterprises. In addition, more input will be made in R&D, enhance the Group's scientific and technological R&D level and industrial application level by combining independent R&D with engaging in exterior cooperation. More efforts will also be made to uplift the management level of the production enterprises to improve efficiency while lowering cost, speed up industrial layout readjusting through re-locating of Sinochem Fuling and Sinochem Oriental Fertilizer Co., Ltd, and constantly promote the awareness of risk control and safety management to ensure operational safety.

Last but not the least, on behalf of the Board, I'd like to take this opportunity to extend our most sincere appreciation to the shareholders and customers of the Group. We hope to have your continuous concern and support in our future development, and expect both the management and the employees of the Company to bear in mind our original mission and keep working harder to make ever greater contributions to the growth of the Group.

**Yang Lin**  
*Non-executive Director*

Hong Kong, 28 March 2019

# CHRONICLE OF EVENTS

## JANUARY 2018

- The water-soluble fertilizer project of Sinochem Yunlong Co., Ltd., a subsidiary of the Group, was put into production, which signified the completion of the production base for high-quality water-soluble fertilizer.
- The Group was awarded “Brand for Industrial Contribution” in the 4th Best Fertilizer of China public welfare selection.
- The 250,000-ton compound fertilizer project of Sinochem Jilin Changshan Chemical Co., Ltd., a subsidiary of the Group, went into operation, which provided effective guarantee for the market exploration of the compound fertilizer sales business in Northeast China.



## FEBRUARY 2018

- Sinochem Fertilizer Co., Ltd., a subsidiary of the Group, signed the annual cooperation framework agreement with Qinghai Salt Lake Industry Co., Ltd., which focused on regional exclusivity.

## MARCH 2018

- The shareholders approved the 2018-2020 Memorandum of Understanding between Sinochem Fertilizer Macao Commercial Offshore Limited and Canpotex in the special general meeting of the Company.
- The opening ceremony of the production, education and research cooperation base of the National Technology Innovation Alliance for Fertilizer Application Reduction and Efficiency Improvement, of which the Group is the president company, was kicked off in the Economic and Technological Development Zone of Linyi, Shandong Province.

## APRIL 2018

- The press conference for the launch of Meilinmei, a new phosphate product with higher efficiency, was held and the brand influence was expanded. The Group responded to the call for fertilizer application reduction and efficiency improvement and introduced the above product together with Chinese Academy of Agricultural Sciences.

## MAY 2018

- A grass-root case of the Group was presented by the CCTV financial channel: Financial Deep Discovery – “Seeking New Momentum for Rural Vitalization: How Do Poverty-stricken Villages Get On the Fast Track to Wealth”.

## JUNE 2018

- Standards for Compound Fertilizers With Chelated Trace Elements (HG/T5331-2018) was introduced and implemented and the Group played a leading role in the enactment of the standards.
- Mr. Qin Hengde, Chief Executive Officer of the Company, headed a delegation to attend the International Fertilizer Association (IFA) conference in Berlin, Germany. During the conference, the delegation conducted discussions with major international strategic suppliers, strengthened traditional cooperative relations and also won broad support for the strategy that the Group was actively promoting.



## JULY 2018

- Hubei Sinochem Orient Fertilizer Co., Ltd., a subsidiary of the Group, laid the foundation of its Jiangling Industrial Park Project.



## NOVEMBER 2018

- At the first China International Import Expo held in Shanghai, the procurement of global high-quality fertilizers by the Group amounted to nearly USD3.5 billion, including phosphate fertilizer, compound fertilizer and potash fertilizer, which further consolidated cooperation with the international trading partners and contributed to the development of the industry.



## AUGUST 2018

- Sinochem Agriculture (Xinjiang) Biotech Co., Ltd., a subsidiary of the Group, kicked off the construction of a 100,000 ton water-soluble fertilizer plant, which marked the beginning of the Group's strategic layout in Xinjiang.
- Mr. Feng Mingwei, Director and General Manager of Sinochem Fertilizer Macao Commercial Offshore Limited, and Alexandr Polyakov, Deputy General Manager of JSC Belarusian Potash Company (BPC), signed a five-year (2019-2023) Memorandum of Understanding, under which the Group would be the exclusive agency of white granular potash on the Chinese market.



## DECEMBER 2018

- With the achievements in R&D of "New Chelating Technology and Its Application in Fertilizers", the Group won the third prize in the Award for Science and Technology Progress 2018 of China Petroleum and Chemical Industry Federation.
- The Company was awarded "The Most Socially Responsible Company" among Hong Kong listed companies in the selection of "2018 Golden Lion Award" sponsored by Sina Finance.



# MANAGEMENT REVIEW AND PROSPECT







# MANAGEMENT REVIEW AND PROSPECT

## Business Environment

**In 2018, the global economy achieved overall stable growth under the background of “large-scale economic friction and readjustment” and the Chinese economy maintained steady growth. Through continuous implementation of the supply-side reform, the adaptability and flexibility of the supply system continued to be enhanced, and the quality of supply also continued to improve.**

In the reporting period, China’s agriculture faced unprecedented opportunities for change. With the supply-side reform, advanced production capacity was steadily developed, high-quality supplies were accelerated and backward production capacity was gradually phased out. Grain output was maintained at a high level, and the crop structure was continuously optimized. The year 2018 was the first year of implementing the Rural Revitalization Strategy. Revitalizing agriculture with quality and green development was the key measure to achieve the above strategy and was the only way for China to

improve the agricultural development, the rural landscape and the farmers’ well-being. China was pushing forward multiple key agricultural policies and initiatives such as environmental protection tax, campaigns against counterfeit agricultural inputs, elimination of export tariff and fertilizer and pesticide application reduction in agriculture, which provided a powerful guarantee for implementing the Rural Revitalization Strategy. Changes in the agricultural industry had a profound impact on the fertilizer industry, which was under tremendous pressure from transformation and upgrading as well as reform and development.







In 2018, the growth of global fertilizer demand slowed down, and the fertilizer prices in the domestic market recovered while excess capacity still existed. Due to the continuous implementation of environmental protection policies, the operating rate of fertilizer enterprises significantly decreased and fertilizer production declined compared to the same period in 2017. Thus, supply fell short of demand and the market price was increased. Meanwhile, due to the continuous increase in raw material prices, production and transportation cost, export decreased and import increased, and thus the fertilizer industry structure faced deep adjustment. With the rising price in the fertilizer industry, the profitability of the fertilizer enterprises was improved. However, the situation of excess capacity had not been completely changed, and the fertilizer and traditional chemical industries were still

facing great pressure to survive. Domestic enterprises accelerated transformation and upgrading one after another and expanded their presence in upstream and downstream industrial chains, started to provide farmers with new comprehensive agricultural services and aimed to achieve sustainable agricultural development and green development of the fertilizer industry.

Against the backdrop of positive global economic development, in order to effectively cope with the great market challenges and ensure its leading position in the industry, the Group, under the leadership of the Board of Directors, continued to deepen strategic transformation and carry out reforms and was committed to becoming China's leading technology-based marketing and service provider of crop nutrition.

### Financial Highlights

For the year ended 31 December 2018, the Group's revenue reached RMB22,996 million, representing a year-on-year increase of 30.33%. Profit attributable to owners of the Company was RMB460 million. Compared to the loss of RMB380 million in 2017 (excluding major non-recurring expenses and losses), the Group returned to profitability, which represented a significant improvement in business performance.

### Manufacturing

In 2018, the Group's subsidiaries, associates and joint ventures continued to strengthen the fundamental work in production enterprises, conducted cost management, centralized procurement and quality management, implemented technological transformation, production process optimization, scientific innovation and automation building, and carried out cost reduction and efficiency improvement, further explored the potential of existing facilities and promoted the production and operation efficiency of the enterprises.

Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, produced 1.02 million tons of phosphate, compound fertilizers and other products in 2018. Sinochem Fuling carried out in-depth cooperation with the Basic Fertilizers Division in off-take, grasped the market opportunities, and achieved notable results in increasing income, reducing costs and improving efficiency through implementing economic responsibility system, and thus increased its profit by a large margin.

In the context of shifting towards new growth momentum, in order to enhance the competitiveness of its plants and make full use of its geographical advantages, Sinochem Jilin Changshan Chemical Co., Ltd., a subsidiary of the Group, shut down the old ammonia production line with high material and energy consumption and operated

the pulverized coal gasification ammonia production line which was energy-saving and environmental-friendly at the beginning of 2018. Therefore, the production and operation of the plant was more stable, the cost was obviously reduced, and the profitability was significantly improved. In 2018, Sinochem Changshan produced 173,800 tons of synthetic ammonia (or 305,000 tons of urea) and 121,600 tons of compound fertilizers in total.

Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary of the Group, optimized phosphate mining schemes and mined 620,500 tons of phosphate rock. In respect of mine construction, Sinochem Yunlong implemented the construction of capacity continuing project of 600,000 tons/year that is mechanized,





automated, digital and intelligent for Mozushao production as planned, ensured the sustainable use of resources, and continuously expanded the advantages in phosphate resources. In 2018, despite of the severe challenges such as the China-US trade friction, continuous capacity release from competitors and rising price in raw materials, Sinochem Yunlong was market-oriented and expanded its market share by continuous quality improvement and differentiated products development, and set a new record in production, sales and profit through “improving production, strengthening marketing, decreasing costs and guaranteeing quality”. Sinochem Yunlong’s output of monocalcium/dicalcium phosphate (MCP/DCP) amounted to 320,000 tons.

### Basic Fertilizers Operations

The Group continued to proceed with professional and lean operations, continuously strengthened strategic procurement on the supply side, increased the proportion of procurement from strategic suppliers and obtained stable supply of high-quality products. On the customer side, the Group focused on exploring the potential of existing customers, further specified the classification standards for industrial customers, and continuously developed new customers. Meanwhile, the Group promoted the sales of nitrogen, phosphate and potash fertilizers for agricultural use through brand building, thus enhancing the brand influence and maintaining a leading position in the market.

**Potash Operations:** In 2018, the potash fertilizer business achieved a sales volume of 2.43 million tons and its operation scale grew by 7% year on year. The Group strengthened its strategic procurement and the cooperation with core suppliers, renewed strategic cooperation agreement, and obtained domestic and overseas high-quality products. The Group further consolidated its strategic cooperation with Qinghai Salt Lake Industry Co., Ltd., with the partnership further deepened, and the

influence of domestic potash enhanced in regions where the Group was the exclusive agency; improved the core customer system for industrial potash, maintained a stable source of supply and enhanced the ability of marketing service; strengthened information collection and analysis, improved scientific decision-making mechanism, formulated differentiated sales strategies, and enhanced market influence; deepened the marketing channel system of potash for agriculture, accelerated to build its proprietary brand, enriched product categories, consolidated core customers, optimized sources of supply and logistics arrangement, and stabilized the sales volume and profit of potash for agriculture.



**Nitrogen Operations:** Sales volume of nitrogen fertilizer amounted to 3.20 million tons in 2018, representing a year-on-year increase of 10%. Since 2018, the Group purchased nitrogen fertilizer in a centralized way and canceled the independent procurement right of its branches and industrial and trade areas, significantly improving the procurement efficiency. In terms of customer service, the Group vigorously promoted the strategy of direct selling to industrial customers in 2018. Due to the Group’s construction of logistics nodes and innovation of product packaging and transportation, the customers benefited from the lower-cost, more efficient and timely product supply. In terms of R&D, the Group developed new types of fertilizer which were efficient, energy-saving and environmental-friendly, implemented advanced fertilization technology, and continuously improved the value of the customers while increasing gross profit contribution.

**Phosphate Operations:** Sales volume of phosphate fertilizer amounted to 2.17 million tons in 2018, representing a year-on-year increase of 18%. Through scale operation, the Group made significant breakthrough in strategic procurement of phosphate fertilizer and ensured steady supply of high-quality phosphate fertilizer. The Group also provided comprehensive solutions centering on the pain points in upstream supply and downstream demand to achieve stable profit and customer value enhancement through customer base consolidation and business model innovation. In addition, by enhancing R&D and application of new technologies, the Group introduced “Meilinmei” in response to the government’s call for “fertilizer reduction and efficiency improvement”, a new phosphate product that was widely sold in domestic market and had begun to be influential.

### Distribution Operations

Focusing on the channel building strategy and enhancement of product marketing, the Group expanded the distribution channels, densified the layout of terminal outlets, and laid emphasis on strategic customer development to achieve scale growth. In terms of technology-based marketing channels, the Group continuously increased the gross profit of products by providing technological schemes of planting and strengthening the marketing of differentiated products and new fertilizers. In terms of straight service channel, the Group focused on large-scale growers, pooled internal and external resources to provide tailored services, reduced levels of sales channels to trade directly with retailers and growers, explored ways of building a comprehensive service platform and expanded the business and service model.





**Compound Fertilizer Operations:** Sales volume of compound fertilizers amounted to 2.41 million tons in 2018, representing a year-on-year increase of 10%. By actively implementing the concept of “In Science We Trust”, with emphasis on the commercialization of technological achievements and improvement of product quality, the Group launched several high-tech products during the year, and gradually formed a crop-oriented product system. The group continuously strengthened product promotion through field experiments, fertilization guidance, process tracking and marketing planning. In addition, with coordination between production and marketing, production efficiency was improved and indicators such as production cost, quality control and inventory turnover were better than expected. In the meantime, the Group accelerated the layout of its own production capacity, and thus provided solid support for the rapid growth of the compound fertilizer business.

By developing an improvement plan for the distribution channels, the Group promoted the building of demonstration households in villages, and accelerated customer development at the township level, and thus the channel quality and network scale became more competitive. The Group also promoted the pilot work of the intelligent distribution outlets, and effectively empowered precision marketing, which improved the operation efficiency of the outlets and increased customer loyalty, and further improved the corporate image and brand influence.

The Group fully implemented the guidelines from the 19th National Congress of the Communist Party of China as well as the Rural Revitalization Strategy, and fully recognized the significance of the transformation and development of China’s agricultural modernization. By means of exploring and accumulating scientific fertilization technology, introducing bio-organic products that could improve soil conditions, and establishing technological service stations in villages, the Group kept on cultivating more new occupational farmers for China’s agriculture so as to contribute to the sound and sustainable development of modern agriculture in China. In order to implement the program of zero-growth in fertilizer consumption, the

Group started from transforming fertilization methods and improving fertilizer utilization efficiency, focused on crop-oriented nutrition solutions, and developed 87 solutions around strategic products to reduce fertilizer consumption and improve efficiency. The Group accelerated the implementation of water and fertilizer integration and intelligent fertilizer mixing projects, built 300 intelligent fertilizer mixing stations in 2018 and continuously promoted the methodology combining agricultural technology and agronomy to gain an edge in technology-based marketing and service model.



### 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 Corporate Internal Control” and its referencing guidelines issued by five ministries and commissions of China’s central government as well as “Guidelines on Compliance Management for State-owned Enterprises (Trial Version)”. Under the principle of “high priority, daily monitoring and mainly diverting”, the Group paid attention to improving risk and internal control management mechanism in line with the strategic development, conducted risk identification, assessment and response, implemented a whole-process risk management, alert and corresponding measures for material risks.

In 2018, keeping abreast of corporate management reform and innovation, the Group further strengthened the corporate culture of risk awareness among all employees, encouraged management at all levels to establish the scientific concept of operational safety and actively created a positive atmosphere of “steady operation and sound development” for risk control. With strict implementation of the requirements of “no disperse management system, no responsibility default and no standard lowering”, each business division effectively undertook internal risk control responsibilities and strengthened accountability. Under the principle of “simplification, high efficiency, clear rights and responsibilities, authorization and under control”, each business division streamlined and improved internal control system and process with different methods and continuously enhanced internal control and management. Meanwhile, to meet the compliance requirements from the domestic and overseas regulatory organizations and to ensure business compliance and steady development, the Group promoted the construction of internal control system, enhanced the inspection of internal control, further strengthened fundamental work, carried out differentiated risk monitoring and assessment. The above efforts provided reasonable protection for the Group to cope with the changing market and operational environment, served its strategic transformation and ensured 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 and autumn sowing season. In 2018, 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 type of occupational farmers. By the end of 2018, more than 20,000 activities were carried out, including over 3,500 field guidance activities, over 4,500 soil testing and formula fertilizer activities, over 2,300 meetings with farmers, over 1,300 demonstration seminars, and more than 1,000 pilot demonstration fields were built, which benefited more than 1,000 villages and towns.





In 2018, 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, the use of bio-organic fertilizers in the production of fruits, vegetables and tea instead of chemical fertilizers, deep side dressing for rice, rice-crayfish culture, etc., explored new mode of scientific fertilization and actively fulfilled its social responsibility. Sinochem Fertilizer promoted the applied technology of deep side dressing for rice in provinces such as Heilongjiang, Jiangsu, Anhui and Guangdong to improve fertilizer utilization efficiency and reduce labor cost. Sinochem Fertilizer launched large-scale demonstration field tours in provinces such as Hubei, Jiangsu, Anhui and Hunan to help farmers increase their revenues, explored a new mechanism for the cooperation between the farmers and enterprises, brought into full play the role of new operation entities and provided impetus for

fertilizer application reduction and efficiency improvement through demonstration. In addition, Sinochem Fertilizer worked with the agricultural scientific research institutions to improve and upgrade existing planting technologies, coordinated with local agricultural technology extension centers to promote advanced application technology and production mode, and led farmers to use new products and new technology with bio-organic fertilizers instead of chemical fertilizers.

In 2018, the Group actively fulfilled its social responsibility, focused on establishing and cultivating the self-development capacity of the poverty-stricken population, combined poverty alleviation with morale boost and wisdom improvement, and provided specialized integrated agricultural services to the poor areas. It also carried out relevant cultural activities to promote the Rural Revitalization Strategy, deeply participated in the construction of rural civilization, and contributed to the



## MANAGEMENT REVIEW AND PROSPECT

realization of the goal of strong agriculture, beautiful countryside and prosperous farmers. The Group held the “New Era of Harvest” art performance in Chaohu, carried out the “Hope Plan” and “Spring Breeze Action” by taking more than 30 targeted measures in poverty alleviation, and donated stationeries and student grants equivalent to RMB650,000. In addition, the Group carried out poverty alleviation projects in Ar Horqin Banner of Inner Mongolia, Linxi County of Inner Mongolia, Lujiang County of Anhui province, Changfeng County of Anhui Province, Wei County of Hebei Province and other places, with a total investment of RMB1.673 million.

In the future, the Group will continue to focus on the requirement of modern agricultural 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

fertilizer, new farmers’ training and social agricultural comprehensive services, 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 insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, implemented technological transformation projects for environmental protection, improved operating level of environmental protection facilities, continuously reduced pollutant emission, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. In 2018, the Company fully completed its energy-saving and emission reduction targets. In particular, the emissions of SO<sub>2</sub>, COD, NH-N and NO<sub>x</sub> were down by 72.11 tons, 15.58 tons, 2.51 tons and 265.60 tons, respectively.





## Outlook

With the acceleration of global economic growth, major economies will also expand. Despite of the pressure from the volatile international financial situation and the potential slowdown of the economic growth in China, the Chinese economy is expected to maintain growth in 2019. Meanwhile, the Chinese government will continue to push forward the supply-side reform, and carry out five priority tasks, namely, cutting overcapacity, destocking, deleveraging, reducing cost, and identifying growth areas, so as to achieve sustainable and steady economic and social development. At present, the internal and external environment of the agricultural industry is constantly changing, which brings about enormous challenges and opportunities. The foremost challenges include scattered agricultural production, inefficient use of technology in agricultural production, the requirement for reform in the government acquisition model to support the market price, the aging of the rural population, and the carrying capacity of the agricultural production environment. The Rural Revitalization Strategy is a major decision made at the 19th National Congress of the Communist Party of China, and has become a key historical mission in building a moderately well-off society in an all-around way and a modern socialist country as well as the main approach of implementing policies related to “agriculture, rural areas and farmers” in the new era.

China’s modern agriculture is still in the early stages of development; the oversupply situation on the fertilizer market still persists; the fertilizer industry is gradually becoming centralized; backward production capacity is phased out; the number of preferential policies for the fertilizer industry is decreasing and the fertilizer industry is more and more market-oriented. With the advancement

of China’s agricultural supply-side reform, large-scale operation entities are emerging; new format of operation in agriculture is taking shape, and mechanization, automation and intelligence are the future development trend of agriculture. As China’s leading technology-based marketing and service provider of crop nutrition, the Group will actively shoulder the tasks of promoting the agricultural modernization and the sound development of the fertilizer industry in China. While consolidating and enhancing the marketing of basic fertilizers, the Group will focus on crops and products and promote the DTS, and accelerate the transition from a trading agent to a service provider, and build a strong fertilizer distribution system. Based on a differentiated product portfolio of compound fertilizer, special fertilizer and core master batch of blended fertilizer, the Group will speed up and strengthen the building of distribution capabilities, carry out integrated operation of production and marketing, enhance comprehensive agricultural service capabilities, and provide optimal agricultural production data and high quality services to the Chinese farmers.

With the promotion of the Rural Revitalization Strategy, 2019 will be a year full of opportunities and the market situation will continue to improve. The Group will make use of its own advantages to promote cooperation in various forms, unite the farmers to enable moderate scale farming, continue to promote the reduction of agricultural inputs application, clean production and ecological industrial model and develop green agriculture. Meanwhile, the Group will also further create value for the shareholders through reinvigorating the existing production capacity, integrating upstream and downstream resources, optimizing supply chain management system, enhancing operational efficiency, intensifying the ability to acquire resources and enhancing overall competitiveness.





# MANAGEMENT'S DISCUSSION AND ANALYSIS







## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended 31 December 2018, sales volume of the Group was 11.61 million tons and revenue was RMB22,996 million, up by 13.71% and 30.33%, respectively, over the corresponding period in 2017.

For the year ended 31 December 2018, gross profit of the Group was RMB1,913 million, up by 39.43% over the corresponding period in 2017. Profit attributable to owners of the Company was RMB460 million. Compared to the loss of RMB380 million in 2017 (excluding major non-recurring expenses and losses), the Group returned to profitability, which represented a significant improvement in business performance.



### I. OPERATION SCALE

#### 1. Sales volume

For the year ended 31 December 2018, sales volume of the Group was 11.61 million tons, up by 13.71% over the corresponding period in 2017. In 2018, the fertilizer market conditions picked up. The Group grasped market opportunities, adhered to the direction of strategic development, continued to optimize incentives, and promoted professional and lean operations. Through strategic procurement, in-depth channel building and innovation of differentiated products, the business continued to develop at a relatively high level, which resulted in the increase of sales volume of major fertilizers compared to the previous year. Sales volume of domestically produced fertilizers amounted to 7.73 million tons, up by 7.81% year on year. Sales volume of imported fertilizers was 3.88 million tons, up by 27.63% year on year.





In terms of product mix, agricultural supply-side reform continued to push forward the optimization of agricultural planting structure. As a result, sales volume of compound fertilizers, potash, nitrogen and phosphate increased by 10.18%, 7.31%, 9.72% and 18.04% year on year, respectively. Under the circumstances that the fertilizer industry was faced with deep restructuring, the Group continuously strengthened strategic partnership with core domestic and overseas suppliers. Based on to customers' demands, the Group improved its coordination mechanism of R&D, production and marketing, and promoted product upgrading through technological innovation, which helped to maintain a relatively high market share.

## 2. Revenue

For the year ended 31 December 2018, the revenue of the Group amounted to RMB22,996 million, increased by RMB5,352 million or 30.33% year on year. The increase rate of the revenue was higher than that of sales volume (13.71%), which was mainly attributable to the rising selling price of fertilizer products, and the average selling price increased by 14.62% year on year.

**Table 1:**

	For the year ended 31 December			
	2018		2017	
	Revenue RMB'000	As percentage of total revenue	Revenue RMB'000	As percentage of total revenue
Potash fertilizers	4,501,587	19.58%	3,904,676	22.13%
Nitrogen fertilizers	4,873,967	21.19%	3,573,177	20.25%
Compound fertilizers	5,891,047	25.62%	4,822,852	27.33%
Phosphate fertilizers	4,919,815	21.39%	3,573,724	20.26%
Monocalcium/Dicalcium phosphate (MCP/DCP)	832,486	3.62%	776,679	4.40%
Others	1,977,426	8.60%	992,704	5.63%
<b>Total</b>	<b>22,996,328</b>	<b>100.00%</b>	17,643,812	100.00%

### 3. Revenue and results by segment

The operating segments of the Group are divided into Basic Fertilizers Segment (procurement and sales of straight fertilizers such as nitrogen, phosphate and potash), Distribution Segment (building of distribution channels, procurement and sales of compound fertilizers and new type of fertilizers) and Production Segment (production and sales of fertilizers and MCP/DCP).

The following is an analysis of the Group's revenue and results by operating segment for the year ended 31 December 2018 and for the year ended 31 December 2017:

**Table 2:**

	For the year ended 31 December 2018				
	Basic Fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Eliminations RMB'000	Total RMB'000
<b>Revenue</b>					
External revenue	14,985,255	5,739,675	2,271,398	–	22,996,328
Inter-segment revenue	487,138	2,978	1,566,390	(2,056,506)	–
<b>Total</b>	<b>15,472,393</b>	<b>5,742,653</b>	<b>3,837,788</b>	<b>(2,056,506)</b>	<b>22,996,328</b>
Segment gross profit	935,617	492,445	484,865	–	1,912,927
Segment profit	641,981	70,062	23,958	–	736,001
	For the year ended 31 December 2017				
	Basic Fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Eliminations RMB'000	Total RMB'000
<b>Revenue</b>					
External revenue	11,182,845	4,534,380	1,926,587	–	17,643,812
Inter-segment revenue	457,668	831	1,419,806	(1,878,305)	–
<b>Total</b>	<b>11,640,513</b>	<b>4,535,211</b>	<b>3,346,393</b>	<b>(1,878,305)</b>	<b>17,643,812</b>
Segment gross profit	793,110	386,110	192,403	–	1,371,623
Segment profit/(loss)	579,158	(33,122)	(1,327,327)	–	(781,291)



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 financing cost. Such information was reported to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment.

For the year ended 31 December 2018, the external revenue increased by RMB5,352 million over 2017, which was attributable to the increase in the selling price and sales volume of fertilizer products year on year.

For the year ended 31 December 2018, the segment profit of the Group was RMB736 million. In particular, the Basic Fertilizers Segment focused on core suppliers to continuously increase the proportion of strategic procurement, and further reduced procurement cost. It also increased the direct sales to industrial customers and explored the potential of the high-quality customers, and made a profit of RMB642 million, up by 10.88% over the corresponding period in 2017. The Distribution Segment continued to deepen distribution channels, enhanced its comprehensive capabilities to serve the customers, and increased innovation and sales of differentiated products, which led to a profit of RMB70 million in 2018. Compared to the profit of RMB5 million in 2017 (excluding major non-recurring expenses and losses), the Distribution Segment made great progress in profitability. Production enterprises realized "safe, stable, long-term, full and high-quality" operation. In particular, Sinochem Jilin Changshan Chemical Co., Ltd. ("Sinochem Changshan"), a subsidiary of the Group, gradually saw stable operation of the production equipments, and its gross profit margin was improved significantly over 2017 as a result of the notable reduction in costs. The Production Segment recovered from the losses in 2017 and made a profit of RMB24 million.

## II. PROFIT

### 1. Gross profit

For the year ended 31 December 2018, gross profit of the Group amounted to RMB1,913 million, increased by RMB541 million or 39.43% over 2017, which was attributable to the increase in the selling price and sales volume of fertilizer products year on year.

The Group undertook different strategies for different products. In terms of potash, the Group strengthened strategic partnership with core domestic and overseas suppliers, and secured constant and steady supply of competitive products, continuously optimized the core customer system for industrial potash, and deepened its marketing system of potash for agriculture. Potash fertilizers made a gross profit of RMB466 million in 2018, up by 14.50% over 2017. Due to the major breakthrough in strategic procurement, consolidation of customer base as well as promotion and distribution of new products, phosphate fertilizers made a gross profit of RMB385 million, up by 38.99% over 2017. As for nitrogen fertilizers, the selling prices was increased significantly, and centralized procurement and direct sales to industrial customers were promoted, which led to a gross profit of RMB130 million, up by 158.70% over 2017. In terms of compound fertilizers, the Group took full advantage of the integration of production, supply and marketing, continuously improved operation efficiency of production, promoted sales of differentiated products by increasing sales outlets and expanding business service mode, and made a gross profit of RMB512 million, up by 19.35% over 2017.

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

**Share of results of joint ventures:** For the year ended 31 December 2018, the share of results of joint ventures of the Group was a profit of RMB28 million, increased by RMB14 million over the corresponding period of 2017. This was mainly due to the fact that the fertilizer market conditions picked up, and the joint ventures continued to implement structural reform and lean operations and had better performance. In 2018, the Group's share of results of Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") was a profit of RMB16 million, up by 100% year on year. The Group's share of results of Gansu Wengfu Chemical Co., Ltd. ("Gansu Wengfu") was a profit of RMB12 million, up by 100% year on year.

**Share of results of associates:** For the year ended 31 December 2018, the share of results of associates of the Group was a profit of RMB18 million, increased by RMB189 million from a loss of RMB171 million over the corresponding period in 2017. The Group's share of results of Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") was a loss of RMB191 million in 2017. However, after the disposal of all its equity in Qinghai Salt Lake, the Group was no longer affected by the performance of Qinghai Salt Lake.

### 3. Income tax

For the year ended 31 December 2018, income tax expense of the Group was RMB-38 million, of which current income tax expense was RMB14 million and deferred income tax expense was RMB-52 million. In 2018, the taxable profit of subsidiaries of the Group increased significantly over the previous year due to the improvement of business performance. As a result, current income tax expense increased by RMB6 million, up by 75% year on year. In the meantime, due to the tax losses not recovered in previous years, the Group recognized the corresponding deferred income tax assets for the losses that were expected to be recovered in the future based on the prudence principle, and recognized the negative deferred income tax expense, which resulted in a negative income tax expense.

The subsidiaries of the Group are mainly registered in Mainland China, Macao and Hong Kong, respectively, where profit tax rates vary. Among them, the tax rate of Mainland China 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. Profit attributable to owners of the Company and net profit margin

Profit attributable to owners of the Company was RMB460 million. Compared to the loss of RMB380 million in 2017 (excluding major non-recurring expenses and losses), the Group returned to profitability, which represented a significant improvement in business performance. Faced with tough market competition and great transformation pressure, the Group adhered to the direction of strategic development, took various operational measures, kept on 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.

### III. EXPENDITURES

For the year ended 31 December 2018, the three categories of expenses amounted to RMB1,754 million, decreased by RMB227 million or 11.46% from RMB1,981 million over the corresponding period in 2017.

**Selling and distribution expenses:** For the year ended 31 December 2018, selling and distribution expenses amounted to RMB906 million, increased by RMB91 million or 11.17% from RMB815 million over the corresponding period in 2017. This was mainly attributable to the fact that the increased sales volume led to higher costs of transportation, warehousing, port handling and labor than those in 2017.

**Administrative expenses:** For the year ended 31 December 2018, administrative expenses amounted to RMB635 million, decreased by RMB190 million from RMB825 million over the corresponding period in 2017. Sinochem Changshan, a subsidiary of the Group, made the provision for personnel optimization expenditure of RMB152 million in 2017. Excluding the impact mentioned above, administrative expenses in 2018 were decreased by RMB38 million or 5.65% over the corresponding period in 2017. This was mainly due to that the Group optimized its institutional structure and improved the management efficiency.

**Finance costs:** For the year ended 31 December 2018, finance costs amounted to RMB213 million, decreased by RMB128 million or 37.54% from RMB341 million over the corresponding period in 2017. This was mainly due to that the Group repaid some interest-bearing liabilities with the funds derived from the disposal of its equity in Qinghai Salt Lake, and thus the average loan balance was reduced from RMB5,238 million to RMB4,297 million.

### IV. OTHER INCOME AND GAINS

This mainly consisted of interest income, sales of semi-product, raw materials and scrapped materials. For the year ended 31 December 2018, the Group's other income and gains amounted to RMB312 million, increased by RMB71 million or 29.46% from RMB241 million over the corresponding period in 2017, which was mainly due to the gains derived from investment in financing products with idle funds.

### V. OTHER EXPENSES AND LOSSES

This mainly consisted of asset impairment loss, sales of raw materials and scrapped materials, and the loss due to that Sinochem Changshan and Sinochem Chongqing Fuling Chemical Co., Ltd. ("Sinochem Fuling") completed the renovation and handover of water, power, gas supply and property management facilities required by the local government. For the year ended 31 December 2018, the Group's other expenses and losses amounted to RMB66 million, decreased by RMB1,677 million from RMB1,743 million over the corresponding period in 2017. This was mainly attributable to the fact that the Group recognized the impairment loss of RMB968 million on property, plant and equipment and other non-current assets, and a provision for onerous contract in relation to the disposal of interests in Qinghai Salt Lake, which amounted to RMB711 million in 2017.

### VI. INVENTORY



As at 31 December 2018, the inventory balance of the Group amounted to RMB5,554 million, increased by RMB121 million or 2.23% from RMB5,433 million as at 31 December 2017. With the increase of the sales volume in 2018, the Group continued to strengthen the coordination between procurement and marketing and control the sales rhythm in order to downsize the inventory. At the end of 2018, the increase rate of inventory was much lower than that of the business scale. Besides, inventory turnover was sped up, and the inventory turnover days decreased from 110 days <sup>(Note)</sup> in 2017 to 94 days <sup>(Note)</sup> in 2018.

*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

As at 31 December 2018, the balance of the Group's trade and bills receivables amounted to RMB535 million, increased by RMB299 million or 126.69% from RMB236 million as at 31 December 2017, which was mainly due to the increase in sales settled by bank notes.

The average balance of trade and bills receivables of the Group was RMB386 million, increased by RMB191 million or 97.95% year on year. This was mainly due to that in order to promote sales, the Group lifted restrictions on the ratio of cash settlement and bill settlement. The trade and bills receivables turnover day was 6 days <sup>(Note)</sup> in 2018, 2 days slower than 4 days <sup>(Note)</sup> in 2017. The Group actively prevented credit risk, and strengthened the review of credit approval and qualifications of the acceptance banks.

*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. LOANS TO RELATED PARTIES

The Group's balance of loans to related parties was RMB1,970 million as at 31 December 2018. Sinochem Fertilizer Co., Ltd. ("Sinochem Fertilizer") provided an entrusted loan of RMB670 million to Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") through Sinochem Finance Co., Ltd. ("Sinochem Finance"), an entrusted loan of RMB800 million to Sinochem Agriculture Holdings through Sinochem Finance, and a fund of RMB500 million to Sinochem Corporation. For more details of loans to related parties, please refer to the section headed "Connected Transactions" of the Directors' Report.

## IX. INTERESTS IN JOINT VENTURES

As at 31 December 2018, the balance of the Group's interests in joint ventures amounted to RMB414 million, increased by RMB28 million or 7.25% from RMB386 million as at 31 December 2017, which was mainly due to the fact that the fertilizer market picked up in 2018, and the performance of joint ventures was improved. In particular, calculated by equity method, the share of results of Three Circles-Sinochem was a profit of RMB16 million, and the share of results of Gansu Wengfu Chemical Co., Ltd. was a profit of RMB12 million.

### X. INTERESTS IN ASSOCIATES

As at 31 December 2018, the balance of the Group's interests in associates amounted to RMB516 million, increased by RMB6 million or 1.18% from RMB510 million as at 31 December 2017. The increase in the amount included the share of profits of Yangmei Pingyuan of RMB18 million for the current period, and the reduction in interests in associate of Sinochem Fuling of RMB12 million.

### XI. OTHER EQUITY SECURITIES (AVAILABLE-FOR-SALE INVESTMENTS UNDER HKAS 39)

As at 31 December 2018, the balance of the Group's other equity securities amounted to RMB498 million, increased by RMB51 million or 11.41% from RMB447 million as at 31 December 2017, which was mainly due to that the Group recognized the fair value change of RMB79 million of the equity investment in Guizhou Kailing (Group) Co., Ltd., the first time that the Group adopted the HKFRS 9, *Financial Instruments*, and adjusted the opening balance of equity at 1 January 2018. Meanwhile, the stock price of China XLX Fertilizer Limited held by the Group decreased as at 31 December 2018, which led to a decrease of RMB28 million in other equity securities.

The Group designated its investments in equity securities not held for trading as financial assets measured at fair value through other comprehensive income (FVOCI) at 1 January 2018. For the impact of the changes in accounting policies, please refer to note 2(c) to the Consolidated Financial Statements for more details.

### XII. INTEREST-BEARING LIABILITIES

As at 31 December 2018, the Group's interest-bearing liabilities amounted to RMB3,085 million, decreased by RMB2,033 million or 39.72% from RMB5,118 million as at 31 December 2017, which was mainly due to that the Group repaid some loans and repurchased some of the bonds issued by Sinochem Fertilizer with the funds derived from the disposal of its equity in Qinghai Salt Lake.

### XIII. TRADE AND BILLS PAYABLES

As at 31 December 2018, the balance of the Group's trade and bills payables amounted to RMB3,143 million, decreased by RMB310 million or 8.98% from RMB3,453 million as at 31 December 2017, which was mainly due to that the Group strengthened the synergy of internal integration, increased the proportion of internal procurement, and strictly controlled the procurement progress, thus leading to the decrease in the balance of trade and bills payables.



#### XIV. OTHER FINANCIAL INDICATORS

The Group uses earnings per share and return on equity (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 indexes 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. For the year ended 31 December 2018, the Group's basic profit per share amounted to RMB0.0656 and ROE was 6.49%, both higher than those in 2017, which was mainly due to that the Group grasped the opportunity of market recovery and made profits.

**Table 3:**

	2018	2017
<b>Profitability</b>		
Earnings/(loss) per share (RMB) <i>(Note 1)</i>	0.0656	(0.3143)
Return on equity <i>(Note 2)</i>	6.49%	(28.96%)

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

*Note 2:* Calculated based on profit/(loss) 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 2018, the Group's current ratio was 1.17, and the debt-to-equity ratio was 42.60%. The Group enjoyed relatively high banking facilities. Its credit rating by Fitch Ratings raised from BBB+ to A-and it had diversified fund-raising methods. The Group maintained a stable financial structure through actively taking operating measures while domestic funding conditions remained tight.

**Table 4:**

	As at 31 December	
	2018	2017
<b>Liquidity and Capital adequacy</b>		
Current ratio <sup>(Note 1)</sup>	1.17	1.61
Debt-to-Equity ratio <sup>(Note 2)</sup>	42.60%	77.23%

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.

## XV. LIQUIDITY AND FINANCIAL RESOURCES

The Group's principal sources of financing included cash from business operation, bank borrowings and the issue of 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 2018, cash and cash equivalents of the Group amounted to RMB589 million, which was mainly denominated in RMB and US dollar. Time deposits due within three months of the Group amounted to RMB500 million.

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

**Table 5:**

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Borrowings from Sinochem Group	–	1,500,000
Other borrowings	57,500	122,000
Bonds		
Principal amount	3,030,000	3,500,000
Less: unamortized transaction costs	(2,115)	(4,465)
<b>Total</b>	<b>3,085,385</b>	<b>5,117,535</b>



**Table 6:**

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Carrying amount repayable		
Within one year	3,085,385	122,000
More than one year, but within five years	–	4,995,535
<b>Total</b>	<b>3,085,385</b>	<b>5,117,535</b>

**Table 7:**

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Fixed-rate borrowings	3,085,385	5,117,535
Variable-rate borrowings	–	–
<b>Total</b>	<b>3,085,385</b>	<b>5,117,535</b>

As at 31 December 2018, the Group had banking facilities equivalent to RMB21,854 million, including US\$1,493 million and RMB11,611 million, respectively. The unutilized banking facilities amounted to RMB18,910 million, including US\$1,346 million and RMB9,669 million, respectively.

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

### XVI. OPERATION AND FINANCIAL RISKS

The Group's major operation risks include the following: slowdown in global economic growth, rising American Protectionism, evolution of global economic and trade rules, increasing factors of uncertainty and instability, more risks of economic downturn and a historic low of economic growth rate in China. Due to the supply-side structural reform and the policy of cutting overcapacity, the polarization of fertilizer industry was accelerated. Under the background of fertilizer application reduction and efficiency improvement, energy conservation and environmental protection, as well as acceleration of industry integration, market competition was intensified. The Group actively took measures to cope with great changes in the business environment, and significantly improved its performance over the previous year, which boosted business confidence. On one hand, basic business continued to increase its market share and profit with technical services as a new driving force; on the other hand, the Group continued to promote strategic transformation and resource integration, deepened modern agricultural services, expanded the areas of agricultural development, enhanced future growth momentum, uplifted overall competitiveness, and reduced the unfavorable impact of operating risk on financial performance of the Group.

Besides, the Group's major operation risks include: environmental and social risks, cyber risk and security, risks associated with data fraud or theft.

#### Environmental and social risks

With the increasingly strict requirements on environmental protection management and more efforts in pollution control from the government, the enterprises are required to attach great importance to ecological civilization and environmental protection. The subsidiaries of the Group, engaged in resource development and fertilizer production, strictly implement the Environmental Protection Law of the People's Republic of China, Air Pollution Prevention and Control Law of the People's Republic of China, Measures for Environmental Administrative Punishment, and no environmental pollution accident occurred throughout the year. The Group actively puts into practice the green development ideology that "green water and mountains are invaluable assets", implements accountability system on enterprises, continuously improves the energy conservation and environmental protection system, enhances daily supervision, and actively carries out environmental protection work. Through technological innovation, the subsidiary manufacturing enterprises have improved resource utilization, reduced pollutant emissions and promoted clean production.

#### Cyber risk and security

With the continuous improvement in information technology of enterprises, the network structure is more and more complicated, and the number of information systems is multiplied. Therefore, the possibility of internet failure and system breakdown is also rapidly increasing. The Group vigorously develops innovative business to enhance its market influence, and meanwhile, the risk from cyberattacks to the information system is also increased.

In accordance with the requirements of Sinochem Group on information technology, the Group continuously optimizes the information system to enhance the capability of cyber security protection and emergency response. The Group conducts weekly cyber security inspections and other related work, and accomplishes security protection of the application system as well as the network inside and outside the office according to the protection requirements at different levels so as to minimize cyber risk and avoid cyber security incidents.

#### Risks associated with data fraud or theft

In order to keep state secrets and trade secrets, the Group has established a relatively complete confidentiality system, including Administrative Measures on Confidentiality and Catalog of Trade Secrets.

The Group takes various promotional and educational measures annually to enhance the employees' awareness of information confidentiality, and urge the employees to be alert. The Group selects certain subsidiaries and assesses their information confidentiality work every year. Through interviews with the employees related with confidentiality, examination on relevant regulations and record documents, reviews on previous confidential documents and on-site observation, the Group conducts investigation on the arrangement of institutions and personnel, establishment of information confidentiality system, secret classification management, information system management, and requires the units under investigation to submit rectification reports within a time limit.

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 unfavorable change in exchange rate that may have an impact on the Group's financial results and cash flow; interest rate risk represents the unfavorable 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 the value of equity investments, which mainly derived from investments in equity securities.

Majority of the Group's assets, liabilities and transactions are denominated in RMB, US dollar and HK 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 unfavorable 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 2018. 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, collection of overdue accounts and other related aspects, reinforced credit customers' pre-assessment, credit process monitoring and investigation into 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, allocated more credit resources to products with higher profit margin and transferred risks by proper utilization of credit insurance tools so as to ensure the timely follow-up of overdue debt. Meanwhile, the Group checked major trade loan recoveries at every settlement date to ensure adequate bad debt provision of unrecoverable accounts, for which the credit risk rarely occurred.

### 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 the 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 demands, optimized capital structure to meet the demand of working capital and repayment of matured bonds.



## XVII. CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no contingent liabilities.

## XVIII. CAPITAL COMMITMENT

Table 8:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Contracted but not provided for		
– Property, plant and equipment	188,350	24,408
Authorized but not contracted for		
– Property, plant and equipment	1,211,375	1,770,125
<b>Total</b>	<b>1,399,725</b>	<b>1,794,533</b>

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.

## XIX. MATERIAL INVESTMENTS

On 31 August 2018, Sinochem Fertilizer and Sinochem Changshan entered into the DES Agreement, pursuant to which Sinochem Fertilizer agreed to convert an amount of RMB1,820 million in the outstanding shareholders' loans extended by it to Sinochem Changshan into an additional registered capital of Sinochem Changshan. After the completion of the transaction, the shareholding percentage of Sinochem Fertilizer in Sinochem Changshan has increased from 94.78% to 98.16%. For more details of material investments, please refer to the section headed "Major Discloseable Events" of the Directors' Report.

## XX. HUMAN RESOURCES

As at 31 December 2018, the Group had about 5,605 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 57.

# DIRECTORS AND SENIOR MANAGEMENT

## DIRECTORS

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

**Mr. QIN Hengde**, aged 48, was appointed as an Executive Director and Chief Executive Officer of the Company in December 2016, in charge of the Company's overall operation. Currently he is also the Chairman of the 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 September 2002, Mr. Qin served as the chief accountant of SDIC Yuanyi Industry Co., Ltd., and from September 2002 to July 2004, Mr. Qin was the deputy general manager of the investment management department of D'Long International Strategic Investment Co., Ltd.. Mr. Qin joined Sinochem International Corporation (a company listed on the Shanghai Stock Exchange, stock code: 600500) in July 2004, and served successively as the general manager of the business development department, financial controller, vice president, executive vice president and president of the company. 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 has been an executive director of China National Seed Co., Ltd., a subsidiary company of Sinochem Group, since December 2016, the deputy chairman of Qinghai Salt Lake Industry Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 000792) since May 2017, and the non-independent director and the Chairman of the board of Win-all Hi-tech Seed Co., Ltd. (a company listed on the Shenzhen Stock Exchange, stock code: 300087) since January 2019. Mr. Qin is a senior accountant, and has rich experience in strategy and investment, merger and acquisition management and financial management.

### **Mr. Harry YANG – Executive Director**

**Mr. Harry YANG**, aged 56, was appointed as an Executive Director of the Company in March 2006. He is also a member of the Nomination Committee and the Corporate Governance Committee of the Company. Mr. Yang graduated 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.

## DIRECTORS AND SENIOR MANAGEMENT

### Mr. YANG Lin – Non-executive Director

**Mr. YANG Lin**, aged 55, was appointed as a Non-executive Director of the Company in August 2010. He was appointed as a member of the Remuneration Committee of the Company on 28 March 2018. Mr. Yang was authorized to assume the role and duties of the Chairman since 11 January 2019 until the date when a new Chairman of the Board is appointed. 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, and deputy chief financial officer of Sinochem Corporation. Mr. Yang is currently the general accountant and the president of Finance Division of Sinochem Group. 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 (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. 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 (stock code: 0817), since February 2014. In addition, Mr. Yang has been the chairman of the board of directors of Sinochem Environment Holdings Limited, a subsidiary of Sinochem Group, since November 2018.

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

**Mr. KO Ming Tung, Edward**, aged 58, was appointed as an Independent Non-executive Director of the Company in April 2000. He is also the Chairman of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee of the Company. Mr. Ko obtained an external bachelor of Laws degree from the University of London in the United Kingdom in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 27 years.

Other than the directorship in the Company, currently, Mr. Ko is also an independent non-executive director of Wai Chun Group Holdings Limited, EverChina Int'l Holdings Company Limited, Chia Tai Enterprises International Limited, Zioncom Holdings Limited and Sterling Group Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange in Hong Kong. In the last three years, Mr. Ko was 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. LU Xin – Independent Non-executive Director and the Chairman of Remuneration Committee**

**Mr. LU Xin**, aged 55, was appointed as an Independent Non-executive Director of the Company in February 2015. Mr. Lu was re-designated from a member to the Chairman of the Remuneration Committee of the Company on 28 March 2018. He is also a member of the Audit Committee and the Nomination 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. At present, Mr. Lu Xin is also the chairman of the board of directors of World International Consulting Limited. Mr. Lu has over 26 years of experience in finance, investment and corporate management with extensive knowledge about economic activities of Hong Kong and Mainland China.

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

**Mr. TSE Hau Yin, Aloysius**, aged 71, 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 56, is the Deputy General Manager of the Company. Mr. Feng graduated from Beijing University of Iron and Steel Technology specializing in automation in 1987 and acquired 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. GAO Jian – Chief Financial Officer

**Mr. GAO Jian**, aged 48, is the Chief Financial Officer of the Company. Mr. Gao graduated from Chongqing Institute of Industrial Management in 1993 with a bachelor's degree and obtained a master's degree in business administration from Renmin University of China in 2002. Mr. Gao worked in Wuzhou Engineering Design and Research Institute from 1993 to 1999. In 1999, he joined China Chemical Import and Export Corporation and had worked in investment department and finance department. Mr. Gao had previously 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. Mr. Gao joined the Company in July 2011 and was appointed the present position.

### Mr. MAO Feng – Deputy General Manager

**Mr. MAO Feng**, aged 47, is the Deputy General Manager of the Company. Mr. Mao graduated from Tianjin Institute of Foreign Trade with a bachelor's degree in international trade in July 1994. From 1994 to 2007, Mr. Mao served in China Machinery Import and Export Corporation and China International Tendering Company under China General Technology Group. In August 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 of Sinochem Group. Mr. Mao joined the Company in January 2017 and was appointed the present position.

### Mr. MA Yue – Deputy General Manager

**Mr. MA Yue**, aged 39, is the Deputy General Manager of the Company. Mr. Ma graduated from Beijing Jiaotong University in July 2001 with a bachelor's degree in management science & engineering and from Tsinghua University with an EMBA in April 2013. Mr. Ma joined Sinochem Fertilizer Co., Ltd. in July 2001, and successively served as general managers of Anhui Branch, Henan Branch, Hainan Branch, distribution & management department, network and logistic management department, network development department, network business department, and Jiangsu Branch, and as assistant to the general manager of Sinochem Fertilizer Co., Ltd.. Mr. Ma 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 2018 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 A.1.7 and E.1.2 as described below.

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

The code provision E.1.2 provides that, among others, the chairman of the board should attend the annual general meeting of the listed issuer. In the annual general meeting of the Company held on 7 June 2018 (the "2018 AGM"), Mr. Zhang Wei, the former Chairman of the Board, did not chair the meeting due to other essential business engagements. In order to ensure smooth holding of the 2018 AGM, the Chairman of the Board authorized and the Directors attending the meeting elected Mr. Harry Yang, the Executive Director of the Company, to chair the meeting on behalf of the Chairman of the Board. Respective chairmen or representatives of the audit, remuneration, nomination and corporate governance committee of the Company were present at the 2018 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

During the year ended 31 December 2018, the Board consisted of seven members, including two Executive Directors, namely Mr. QIN Hengde and Mr. Harry YANG, two Non-executive Directors, namely Mr. ZHANG Wei and Mr. YANG Lin, and three Independent Non-executive Directors, namely Mr. KO Ming Tung, Edward, Mr. LU Xin and Mr. TSE Hau Yin, Aloysius. On 11 January 2019, Mr. Zhang Wei tendered his resignation as a Non-executive Director and Chairman of the Board of the Company due to adjustment of work arrangements, which took effect on the same date. Following Mr. ZHANG Wei’s resignation, Mr. YANG Lin has been authorized to assume the role and duties of the Chairman during the period commencing from 11 January 2019 and ending on the date when a new Chairman of the Board is appointed.

The biographical details of the current Directors are set out on pages 41 to 43 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 Non-executive Directors of the Company are experienced and professional 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.

### **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 18 years and Mr. Tse Hau Yin Aloysius, Independent Non-executive Director of the Company, has served the Board for more than 11 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 each of Mr. Ko and Mr. Tse as Independent Non-executive Director of the Company were approved by shareholders in separate resolution at the annual general meeting of the Company held on 7 June 2018. 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 2018, Mr. Zhang Wei and Mr. Yang Lin each held directorships or other positions in Sinochem Group (the ultimate controlling shareholder of the Company).

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. Zhang Wei as the Chairman of the Board during the year ended 31 December 2018, was responsible to lead and ensure the effective management of the Board. Mr. Qin Hengde as the 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.

During the year, Mr. Zhang Wei met once with all Independent Non-executive Directors of the Company without Executive Directors' present and discussed about the overall business development of the Company and the effectiveness of the management team of the Company.

### **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.

## CORPORATE GOVERNANCE REPORT

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 2018, the Board have:

1. approved the adoption of the applicable Hong Kong Financial Reporting Standards;
2. selected suitable accounting policies and applied them consistently throughout the year covered by the consolidated financial statements;
3. made judgements and estimates that are prudent and reasonable, and ensured the consolidated financial statements are prepared on a going concern basis; and
4. ensured that the consolidated financial statements are prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance, the Listing Rules and the applicable accounting standards.

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

### **Continuous professional development**

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

During the year, the Company arranged and funded a seminar, which was conducted by a professional legal firm, on the recent developments on the Listing Rules and recent cases of breaches. All Directors have attended the seminar. In addition, during the year ended 31 December 2018, the Directors actively participated in continuous professional development to develop and refresh their knowledge and skills, which ensure that their contributions to the Board remain informed and relevant. Listed below are certain seminars or forums participated by each of the Directors during the year:

Name of Director	Seminar/Forum	Organizer
Zhang Wei	「構建種業創新體系、提升種業自主創新能力」座談會 全國安全生產電視電話會議 首屆中國國際進口博覽會及「貿易與創新」平行論壇	農業農村部種子管理局、科技教育司 國務院 商務部和上海市人民政府
Yang Lin	改革開放四十年會計行業創新發展論壇 中國對外經濟貿易會計學會年會 首屆中國國際進口博覽會及「貿易與創新」平行論壇 2018年度中金論壇	財政部及中國會計報 中國對外經濟貿易會計學會 商務部和上海市人民政府 China International Capital Corporation Limited
Qin Hengde	首屆中國國際進口博覽會及「貿易與創新」平行論壇 IFA中國顧問組會議 IFA全球戰略論壇中國政策分會 全國農民專業合作社質量提升整縣推進試點工作現場會	商務部和上海市人民政府 International Fertilizer Association (“IFA”) IFA 農業農村部
Harry Yang	Investment Outlook for 2019 Building Guangdong-Hong Kong-Macao Greater Bay Area into China’s Largest Free Trade Zone China Macro Landscape and Investment ideas Duties of Directors and Role and Function of Board Committees Risk Management and Internal Control, ESG Reporting Corporate Governance – Director and Company Secretary’s Roles	Morgan Stanley Citi Group Bank of America Merrill Lynch Stock Exchange Stock Exchange Stock Exchange



## CORPORATE GOVERNANCE REPORT

<b>Name of Director</b>	<b>Seminar/Forum</b>	<b>Organizer</b>
Ko Ming Tung, Edward	Duties of Directors and Role and Function of Board Committees	Stock Exchange
	Risk Management and Internal Control, ESG Reporting	Stock Exchange
	Corporate Governance – Director and Company Secretary’s Roles	Stock Exchange
	Directors’ Responsibilities at IPOs	Stock Exchange
	The KPMG INED Forum	KPMG
Lu Xin	Duties of Directors and Role and Function of Board Committees	Stock Exchange
	Risk Management and Internal Control, ESG Reporting	Stock Exchange
	Corporate Governance – Director and Company Secretary’s Roles	Stock Exchange
	Directors’ Responsibilities at IPOs	Stock Exchange
Tse Hau Yin, Aloysious	Directors Development Programme – Regulator’s Dialogue with Directors: Banking Regulation – What’s next	The Hong Kong Institute of Bankers
	The KPMG INED Forum	KPMG
	McNavigating oil and gas through the energy transition	McKinsey & Company
	Conference for INED	Hong Kong Monetary Authority
	中國境外上市公司企業規管高級研修班 2018	The Hong Kong Institute of Chartered Secretaries
	Directors Development Programme – RegTech: Harnessing Behavioural Science and AI for Risk Management & Performance Optimisation	The Hong Kong Institute of Bankers
	NED Programme: Building your social license to operate in challenging security environments	PwC

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 2018, 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, major transactions, connected transactions, continuing connected transactions and other significant matters. The Board had also approved certain proposals by circulation of written resolutions during the year. The attendance rates of the Chairman and other members of the Board at the aforesaid Board meetings during the year ended 31 December 2018 are as follows:

	<b>Attendance rate</b>
<b>Executive Directors</b>	
Mr. Qin Hengde ( <i>Chief Executive Officer</i> )	4/4
Mr. Harry Yang	4/4
<b>Non-executive Directors</b>	
Mr. Zhang Wei ( <i>former Chairman</i> ) <sup>(Note)</sup>	3/4
Mr. Yang Lin	4/4
<b>Independent Non-executive Directors</b>	
Mr. Ko Ming Tung, Edward	4/4
Mr. Lu Xin	4/4
Mr. Tse Hau Yin, Aloysius	4/4

Note: Mr. Zhang Wei resigned as Chairman of the Board and Non-executive Director of the Company on 11 January 2019.

## 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 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 2018. The Chief Financial Officer or the General Manager of Finance of the Company and the external auditors also attended the meetings. The attendance rates of each of the committee members at these meetings are as follows:

	<b>Attendance rate</b>
<b>Independent Non-executive Directors</b>	
Mr. Tse Hau Yin, Aloysius ( <i>Chairman</i> )	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 2018;
4. discussed the audit plan, scope and responsibility before the commencement of work with the external auditors;



5. reviewed and evaluated annually 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 personnel;
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 four members. The Chairman of the Remuneration Committee is Mr. Lu Xin, and the other members are Mr. Ko Ming Tung, Edward, Mr. Tse Hau Yin, Aloysius and Mr. Yang Lin. Mr. Ko was the Chairman of the Remuneration Committee from 26 February 2015 up to 28 March 2018. On 28 March 2018, Mr. Lu Xin was re-designated as the Chairman of the Remuneration Committee. Except for Mr. Yang Lin, who is a Non-Executive Director and was appointed as a member of the Remuneration Committee on 28 March 2018, the remaining three members are all Independent Non-executive Directors. Mr. Harry Yang, an Executive Director of the Company ceased to be a member of the Remuneration Committee on 28 March 2018.

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.

## CORPORATE GOVERNANCE REPORT

The Remuneration Committee met once during the year ended 31 December 2018. The Remuneration Committee had also approved or passed a proposal by circulation of written resolution during the year, and had presented the relevant proposal to the Board for review or approval, where applicable, in subsequent board meetings. The attendance rates of each of the committee members at the aforesaid meeting during the year ended 31 December 2018 are as follows:

	<b>Attendance rate</b>
<b>Independent Non-executive Directors</b>	
Mr. Lu Xin ( <i>Chairman</i> ) <sup>(Note 1)</sup>	1/1
Mr. Ko Ming Tung, Edward <sup>(Note 1)</sup>	1/1
Mr. Tse Hau Yin, Aloysius	1/1
<b>Non-executive Director</b>	
Mr. Yang Lin <sup>(Note 2)</sup>	1/1

*Notes:*

1. Mr. Lu Xin was re-designated as the Chairman of the Remuneration Committee on 28 March 2018. Mr. Ko Ming Tung, Edward was the Chairman of the Remuneration Committee until 28 March 2018.
2. Mr. Yang Lin, a Non-Executive Director of the Company, was appointed as a member of the Remuneration Committee on 28 March 2018. Mr. Harry Yang, Executive Director of the Company, ceased to be a member of the Remuneration Committee on the same date.

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 2017, 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 2018 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 2018;
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 and state-managed retirement benefits scheme. 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. 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 2018, the Group had about 5,605 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 values the importance of training and career development of employees. In 2018, the Group provided 777 person-times or 11,678 hours of training (any training organized by the subsidiaries has not been included in these numbers). The training courses covered areas such as industrial development, strategy implementation, leadership enhancement, marketing management, operation and management, laws and regulations, finance, human resource management, 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 four members. The Chairman of the Nomination Committee is Mr. Ko Ming Tung, Edward and the other members are Mr. Lu Xin, Mr. Tse Hau Yin, Aloysius and Mr. Harry Yang. Except for 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 met once during the year ended 31 December 2018. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	<b>Attendance rate</b>
<b>Independent Non-executive Directors</b>	
Mr. Ko Ming Tung, Edward ( <i>Chairman</i> )	1/1
Mr. Lu Xin	1/1
Mr. Tse Hau Yin, Aloysius	1/1
<b>Executive Director</b>	
Mr. Harry Yang	1/1

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

1. reviewed the structure, size and composition of the Board and made suggestions to the Board;
2. reviewed the terms of appointment of Directors and made recommendations to the Board;
3. nominated the Directors to be retired by rotation to the Board and made recommendation for their re-election in the forthcoming annual general meeting;

4. reviewed the independence of Independent Non-executive Directors and made suggestions to the Board; and
5. reviewed the composition of the Remuneration Committee and made recommendations to the Board regarding the changes in the chairman and a member of the Remuneration Committee.

#### **Policy in respect of nomination of directors of the Company**

The Board adopted a nomination policy on 27 March 2013 for the purpose of setting out the procedures for shareholders or Directors to propose a person for election as a Director of the Company, and to set out the general guidelines and procedures for the members of the Nomination Committee in the nominee identification, evaluation and recommendation processes.

Bye-law 88 of the Company provides that no person, other than a Director retiring at the meeting, shall be eligible for election as a Director at any general meeting unless:

1. he/she is recommended by the Directors; or
2. a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the Head Office <sup>(Note 1)</sup> or at the Registration Office <sup>(Note 2)</sup>, provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven days prior to the date of such general meeting.

*Note 1: "Head Office" means the principal place of business of the Company in Hong Kong.*

*Note 2: "Registration Office" means the Company's branch share registrar and transfer office in Hong Kong.*

Upon receipt of the notices as mentioned above, the Company shall inform the Nomination Committee as soon as practicable. The Nomination Committee shall review the profile of the candidate(s) and assess the suitability of the candidate(s) for the Board's consideration and recommendation to the shareholders for consideration. In the selection process, the Nomination Committee makes reference to the criteria including, inter alia:

1. reputation for integrity, accomplishment and experience in the relevant business sector;
2. professional and educational background;
3. potential time commitment for the Board and/or committee responsibilities; and
4. objective criteria with due regard for the benefits of diversity on the Board.

## CORPORATE GOVERNANCE REPORT

As a good corporate governance practice, every Director or Nomination Committee member shall abstain from voting on the proposition of himself/herself for election by shareholders.

To enable shareholders to make an informed decision on their election at a general meeting, the names of all candidates recommended by the Nomination Committee and the Board to be elected or re-elected as a Director in general meeting, together with his/her biographical details as set out in Rule 13.51(2) of the Listing Rules, are set out in a circular to be sent to shareholders prior to the meeting.

### **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. 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 diversified in terms of age, years of service, position, skills and knowledge. The table below shows the analysis on the diversity of the current Board members:

Age	Years of Service			Total
	Less than 5 years	6 to 10 years	Over 10 years	
Age 45-54	1	–	–	1
Age 55-64	1	1	2	4
Age 65-74	–	–	1	1
<b>Total</b>	2	1	3	6

Position	Skills and Knowledge			Total
	Business & Corporate Management	Finance and Accounting Management	Legal Expertise	
Executive Director	2	–	–	2
Non-executive Director	–	1	–	1
Independent Non-executive Director	–	2	1	3
<b>Total</b>	2	3	1	6

### 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).

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 principles and policies of the Company and making recommendations to the Board, and implementing the corporate governance policies laid down by the Board; (2) reviewing and monitoring the corporate governance 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 corporate governance 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 Corporate Governance Report; and (6) reviewing regularly the contribution required from Directors to perform their responsibilities to the Company, and the time commitments.



## CORPORATE GOVERNANCE REPORT

The Corporate Governance Committee met once during the year ended 31 December 2018. The attendance rates of each of the committee members at the aforesaid meeting are as follows:

	<b>Attendance rate</b>
<b>Executive Directors</b>	
Mr. Qin Hengde ( <i>Chairman</i> )	1/1
Mr. Harry Yang	1/1
<b>Management</b>	
Ms. Cheung Kar Mun, Cindy	1/1
Ms. Cao Jing	1/1

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 the 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.

### Dividend policy

The Company’s dividend policy is to make dividend payout to shareholders when the Group record net profit during a financial year. The dividend payout ratio was determined to be at the range from 15% to 30% on the profit attributable to owners of the Company of the relevant year. In determining the specific dividend payout ratio, the Board will consider the financial performance, financial position, cash flows and capital commitment situation of the Group for the relevant year, and also the plans and requirements on future financing of the Group.

### 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.

2018 AGM of the Company was held on 7 June 2018, in which Mr. Harry Yang, the Executive Director 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 or representatives of the Audit, Remuneration, Nomination and Corporate Governance Committees of the Company attended the 2018 AGM and were available to answer relevant questions. The attendance rates of each of the Directors at the 2018 AGM are as follows:

## CORPORATE GOVERNANCE REPORT

### Attendance rate

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#### **Executive Directors**

Mr. Qin Hengde ( <i>Chief Executive Officer</i> )	0/1
Mr. Harry Yang	1/1

#### **Non-executive Directors**

Mr. Zhang Wei ( <i>former Chairman</i> ) <sup>(Note)</sup>	0/1
Mr. Yang Lin	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

Note: Mr. Zhang Wei resigned as Chairman of the Board and Non-executive Director of the Company on 11 January 2019.

During the year, two special general meetings of the Company were held for approving certain continuing connected transactions, major and connected transactions and share premium reduction of the Company by the then shareholders. The attendance rates of each of the Directors at these two special general meetings of the Company are as follows:

### Attendance rate

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#### **Executive Directors**

Mr. Qin Hengde ( <i>Chief Executive Officer</i> )	1/2
Mr. Harry Yang	2/2

#### **Non-executive Directors**

Mr. Zhang Wei ( <i>former Chairman</i> ) <sup>(Note)</sup>	0/2
Mr. Yang Lin	0/2

#### **Independent Non-executive Directors**

Mr. Ko Ming Tung, Edward	2/2
Mr. Lu Xin	2/2
Mr. Tse Hau Yin, Aloysius	2/2

Note: Mr. Zhang Wei resigned as Chairman of the Board and Non-executive Director of the Company on 11 January 2019.

### 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, and is disclosed in the section on "Policy in respect of nomination of directors of the Company" in this report.

### 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 2018, 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 2018 were as follows:

Nature of services	For the year ended 31 December	
	2018 RMB'000	2017 RMB'000
Audit service (including audit of financial statements and other audit related projects)	3,850	4,200
Other work related to notifiable transactions	650	1,300
Tax related service	99	117
<b>Total</b>	<b>4,599</b>	<b>5,617</b>



### FINANCIAL MANAGEMENT

In 2018, the Group kept on improving the professional qualities and management level of the finance personnel by training, job rotation, crosscheck and performance appraisal. The Group built a talent echelon through internal talent review and external recruitment, and trained the talents through tutorial system and management by projects, continuously improving the professional capabilities and competence of the finance personnel. Besides, the Group strengthened management on the fundamental financial work, normalized rules and regulations, improved the quality of accounting, optimized the internal control system on risks, enhanced management capacities of medium and long-term funds, capital and assets, explored the rational allocation of resources, improved working assets turnover efficiency, strived for precision, efficiency and professionalism, and devoted itself to discovering, protecting and creating corporate value.

In 2018, the Group strengthened the timeliness and accuracy of basic financial information in accounting, completed the accounting records with high quality, and prepared the consolidated financial statements. Financial robots were introduced in accordance with the financial and tax business scenarios, and existing business processes were optimized and improved, which continuously improved work efficiency. At the same time, in accordance with the requirements of the capital market, the Group provided relevant information to the designated information disclosure platform and welcomed the supervision and inspection from regulators.

In 2018, 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 utilized the 369 rolling forecast management system, strengthened process monitoring, and guaranteed the achievement of annual targets through deviation rectification in the process of development. 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 2018, the exchange rate of RMB against US dollar showed a trend of bi-directional volatility. The RMB had been appreciating since the beginning of the year, but it had depreciated sharply since March as the China-US trade friction escalated, which had a relatively big impact on the import and export business of the Group. The Group still took prudent measures after considering the operation mode of its fertilizer import business, and adopted a high proportion of forward hedge according to the import agreement and payment plan. As for export business, the Group adopted timely foreign exchange settlement and offset with the import business while conducting export business in order to avoid foreign currency risks.

In 2018, as the Chinese government continued to strictly control financial systemic risks, the loan size of commercial banks was constrained, and the market interest rate rose up in the first half of the year. However, the market interest rate declined in the fourth quarter as the economy entered a downward cycle. The Group further strengthened cooperation with Sinochem Finance Co., Ltd. and external banks of strategic alliance, maintained sufficient bank credit lines, 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. The Group actively developed forward settlement methods including bank acceptance bill and domestic letter of credit in order to reduce the cost of capital.

## 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 Listing Rules of the 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 and risk assessment, etc.. Key branches, subsidiaries, associates and joint ventures of the Group are the scope of the audit. Combined with the internal control system of the Group, the results of previous internal control assessments, the findings of annual audit investigations, the inspections of the board of supervisors, the strategic requirements of the companies 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 analyzed and 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.

## CORPORATE GOVERNANCE REPORT

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: Fully analyzing the changes in the macro environment both at home and abroad, the industrial environment and internal environment of the Company, combined with the issues discovered in the auditing process over the years and the current situation of internal control management, the Group comprehensively assessed each kind of risk the Company might face, centered on major risk areas in the process of corporate 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, and in accordance with the status quo of its corporate management, the Group eliminated inefficient control activities, optimized the control procedures and revised related corporate management rules while ensuring the risk is under control. The Group also strengthened supervision and examination and improved the execution of internal control.
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 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. Through these actions, the Group clarified the duties and missions of the Company's management staffs, strengthened mutual supervision among different levels, and 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 2018, 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 performed well 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 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 internal control 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 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.

In 2018, faced with a serious and complicated external economic situation and increasing operational pressure, the Group implemented management reform and innovation, further strengthened the corporate culture of risk awareness among all employees in various ways, enhanced the risk awareness of business units as responsible entities, and actively created a positive atmosphere of “stable operation and healthy development” for risk control. In line with the requirements of external supervision of the State-owned Assets Supervision and Administration Commission (SASAC) of the State Council and its own risk management, the Group improved the 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. In 2018, major business departments of the Group streamlined and revised the management regulations and processes based on their new functions, which covered all the areas of the Group’s daily operation and management and could provide guarantee for the Group’s lawful compliance operation and sustainable development.

In 2018, the Group enhanced the allocation and utilization efficiency of credit and inventory resources, carried out differentiated monitoring and evaluation over companies with over-due payment, improved the means of inventory risk management, strengthened the reduction of long-term inventory 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, and through cross inspection, joint inspection and special inspection, carried out 32 spot inspections among its subsidiaries. As a result, the quality and efficiency of internal supervision was fully enhanced to ensure the business safety, 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 under direct responsibility of the senior management of the Group. 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.



## CORPORATE GOVERNANCE REPORT

In 2018, the agricultural industry in China was at a stage of restructuring and the fertilizer industry was also confronted with great pressure from transformation, upgrading, reform and development in the context of industrial transformation. As a result, the Group also streamlined and upgraded the business emphasis and strategic direction in 2018. At the same time, 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 2018, the work related to investor relations of the Company mainly included:

1. In March 2018, the Company announced its 2017 annual results and held press conference and analysts' meeting.
2. In August 2018, the Company announced its 2018 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 2018, 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. The Company also continuously updating the Company's website to deliver useful information of the business of the Group to the public.

## HEALTH, SAFETY AND ENVIRONMENT

The Group insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, continuously reduced pollutant emission through technological transformation, built a long-term environmental protection mechanism and constantly improved its environmental protection performance. The Group actively built an enterprise featuring intrinsic safety and environmental friendliness and proactively fulfilled its social responsibility.

In 2018, 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).

In 2018, the Group implemented relevant national policies and the arrangements of Sinochem Group, focused on improving the HSE system building, strengthened and clarified the HSE responsibilities of the enterprise and personnel at all levels, centered on "risk management and control", fully promoted the risk identification activities among all the employees, and built a risk control system of "one manual for one company and one card for one position".

The Group fully implemented the “safety eye APP” as the hazard management system, actively carried out the hazard detection activities, and continued to improve the management level of HSE. Eight subsidiaries of the Group successfully promoted the “safety eye APP” for hazard management. Sinochem Yunlong and Sinochem Fuling implemented the trial operation of the “safety eye” training module. Based on the training matrix, the training content and requirements for all levels of personnel were included in the training module, and this indicator is included in the safety performance appraisal, which further strengthened the safety awareness and skills of the personnel at all levels.

All subsidiaries of the Group continued to increase investment in safety, vigorously promoted hazard rectification, constantly improved the working environment of employees, consolidated all the basic construction of occupational health management, effectively controlled occupational hazards, and ensured the health of the personnel. Sinochem Changshan made annual maintenance and operating plans, carried out mobilization training for all the personnel, successfully completed the annual maintenance and laid a good foundation for the stable operation of the new system.

The Group adhered to the basic national policy of environmental protection, implemented national rules and regulations on environmental protection, clean production and soil and water conservation and formulated environmental protection planning and regulations within the Group. By strictly implementing the “Environmental Protection Management Measures of Sinochem Fertilizer” and “Energy Saving Management Measures of Sinochem Fertilizer”, the subsidiaries of the Group enjoyed smooth operation and the pollutant emission met the standards and was under control. The Group implemented the responsibility system on environmental protection. 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 Group 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 to ensure compliance with national environmental protection laws. The Group also set up contingency plans for environmental emergencies, carried out drills, built a daily management and monitoring mechanism for emission indicators, and strictly assessed the operating rate and maintenance of environmental protection facilities as well as the completion rate of pollutant emission indicators.

The Group implemented the “three-simultaneity” management of environmental protection in line with relevant rules and regulations. The phosphogypsum stack project of Sinochem Yunlong in Yize village ran with safety and good environmental protection. Sinochem Changshan, Sinochem Fuling and Sinochem Yunlong were key enterprises supervised by the government. They were monitored by the local environmental monitoring stations every quarter, and carried out self-monitoring regularly. The monitoring results were in line with the relevant standards.

An actual investment of RMB86.68 million was made in the Group’s environmental protection throughout the year, including RMB26.02 million for 4 projects in Sinochem Fuling; RMB14.20 million for 7 projects in Sinochem Changshan; RMB40.73 million for 17 projects in Sinochem Yunlong; RMB5.10 million for 4 projects in Sinochem Shandong Fertilizer Co., Ltd. (“Shandong Fertilizer”); RMB0.12 million for 3 projects in Hubei Sinochem Oriental Fertilizer Co., Ltd.; RMB0.48 million for 3 projects in Fujian Sinochem Zhisheng Chemical Fertilizer Co., Ltd.; and RMB0.03 million for 3 projects in Sinochem Yantai Crop Nutrition Co., Ltd..

In 2018, the Group fully completed its energy-saving and emission reduction targets. In particular, the emissions of SO<sub>2</sub>, COD, NH-N and No<sub>x</sub> was down by 1,461.66 tons, 34.38 tons, 7.18 tons and 598.40 tons, respectively. The subsidiaries such as Sinochem Changshan, Shandong Fertilizer, Sinochem Fuling and Sinochem Yunlong maintained sound operation in terms of safety and environmental protection and saw no major complaint and public opinion incidents while the government supervision team carried out inspections.

### Environmental, Social and Governance Report

The Company is going to publish its 2018 Environmental, Social and Governance Report soon in compliance with the Environmental, Social and Governance Reporting Guide set out in Appendix 27 of the Listing Rules. The content of the report will conform to the requirements of the Stock Exchange and disclose Sinofert's environmental, social and governance performance.

## 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 Group and continued to maintain its position as a large 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 2018, the Group followed the strategy of in-depth distribution, and the proportion of straight service for big growers increased.

In 2018, the aggregate revenue generated from the five major customers of the Group accounted for no more than 20% of the Group's total revenue. The Group maintained a stable relationship with Hunan Longke Agricultural Inputs Chain Co., Ltd. ("Hunan Longke"), one of the major customers of the Group in terms of potash sales starting from 2004 and also one of the Group's important muriate of potash customers. Considering the long-term mutually beneficial relationship with Hunan Longke, the Group granted Hunan Longke a credit line of RMB50 million and a credit term of 60 days with equivalent credit insurance. As of the date of the report, all the subsequent settlement in relation to receivables from Hunan Longke as at 31 December 2018 were received.

In 2018, the aggregate purchase from the Group's five major suppliers accounted for about 19% of the Group's total purchases, including 5% from the largest supplier. As the most important domestic potash supplier for the Group, Qinghai Salt Lake maintained a long-term business relationship with the Group and supplied potash products to the Group by means of payment upon delivery or payment in advance.

The Group tightened the access threshold for customers and suppliers. In particular, strict examination and approval procedures were applied to customers with sale on credit and suppliers with payment in advance. The Group closely followed up on the operation status of the major customers and suppliers and credit insurance was adopted. During the year of 2018, the Group maintained sound cooperation with its major customers and suppliers.

## 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 Stock Exchange. In 2018, with stricter supervision of the Chinese government on environmental protection and work safety, the Group adhered to Environmental Protection Law of the People's Republic of China, Production Safety Law of the People's Republic of China, Fire Prevention Law of the People's Republic of China, Implementation Rules for Water Pollution Prevention and Control Law, Management Regulations on Environmental Protection of Construction Project, Occupational Disease Prevention and Control Law of the People's Republic of China in its production and operation activities. 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 Group, constantly improved the environmental protection compliance, invested a large amount of resources to improve production equipment, and reduced production emissions and pollutions. Through internal control, risk and HSE management, the Group successfully achieved the emission reduction indicators for 2018, 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 2018.

### 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/monocalcium 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 pages 103 to 104 of the annual report.

The Board recommended the payment of a final dividend of HK\$0.0224 (equivalent to RMB0.0196) per share for the year ended 31 December 2018 (2017: nil) to the shareholders, estimated to be HK\$157,348,000 (equivalent to approximately RMB137,868,000) out of the contributed surplus of the Company. It is expected that the relevant dividend will be paid by 15 July 2019 to those entitled, subject to shareholders' approval at the forthcoming annual general meeting.

### 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 200 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 ended 31 December 2018. The aggregate purchases from the Group's five largest suppliers represented less than 30% of the Group's total purchases for the year ended 31 December 2018.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group for the year are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

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

Pursuant to a special resolution passed by the Company's shareholders at the special general meeting held on 20 December 2018, the share premium account of the Company was reduced by an amount of HK\$2,500,000,000 (equivalent to approximately RMB2,380,000,000) with the credit arising therefrom being credited to the contributed surplus account of the Company.

## RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity from pages 107 to 108 of the annual report.

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31 December 2018, the Company's reserves available for distribution to shareholders, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda (as amended), amounted to approximately RMB1,908,500,000 (2017: nil). The amount represented the credit standing in the contributed surplus of the Company as at 31 December 2018.

## DONATIONS

During the year ended 31 December 2018, the Group had made approximately RMB977,000 charitable donations in cash mainly to certain poverty locations in China and to support children's education in various locations in China.

## DIRECTORS

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

### **Executive Directors**

Mr. Qin Hengde (*Chief Executive Officer*)

Mr. Harry Yang

### **Non-Executive Directors**

Mr. Zhang Wei (*Former Chairman*) (resigned on 11 January 2019)

Mr. Yang Lin

### **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. Qin Hengde 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 41 to 45 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 during the year and up to the date of this report are as follows:

1. Mr. Lu Xin, an Independent Non-executive Director of the Company, was appointed as the Chairman of the Remuneration Committee of the Company with effect from 28 March 2018. His remuneration as the Chairman of the Remuneration Committee is HK\$82,500 (equivalent to approximately RMB69,800) per annum, which was approved by the Board and was determined with reference to his duties and responsibilities.
2. Mr. Ko Ming Tung, Edward, an Independent Non-executive Director of the Company, ceased to be the Chairman of the Remuneration Committee of the Company with effect from 28 March 2018. Since then, Mr. Ko was no longer entitled to receive remuneration in the capacity of the Chairman of the Remuneration Committee.
3. Mr. Ko Ming Tung, Edward, an Independent Non-executive Director of the Company, was appointed as an independent non-executive director of Sterling Group Holdings Limited on 19 October 2018.
4. Mr. Yang Lin, a Non-executive Director of the Company, was appointed as the chairman of the board of directors of Sinochem Environment Holdings Co. Ltd. on 6 December 2018. Sinochem Environment Holdings Co. Ltd. is a wholly-owned subsidiary of Sinochem Group Co., Ltd.
5. The total cash compensation received by Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, and Mr. Harry Yang, an Executive Director of the Company, for the year ended 31 December 2018 are set out in note 10 to the consolidated financial statements.
6. Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, was appointed as a non-independent director of Win-all Hi-Tech Seed Co., Ltd., a company listed on the Shenzhen Stock Exchange, on 24 January 2019, and was subsequently appointed as the chairman of the board of directors of the same company on 29 January 2019.

## DIRECTORS' SERVICE CONTRACTS

On 16 February 2017, Mr. Qin Hengde, an Executive Director and the Chief Executive Officer of the Company, entered into a service contract with the Company for a term of three years. On 15 May 2017, Mr. Harry Yang, an Executive Director of the Company, renewed his service contract with the Company for a term of three years. Pursuant to the terms stipulated in the service contracts of Mr. Qin Hengde and Mr. Harry 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. Qin Hengde or Mr. Harry Yang prior to its expiry, Mr. Qin Hengde or Mr. Harry Yang will be entitled to receive a cash compensation equivalent to 11 months of his annual director's salary, save for the circumstances described in item (ii) above.

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

As at 31 December 2018, the interests of the Directors and chief executives in the shares, share options, underlying shares and debentures of the Company or any of 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 disclosed below.

As at 31 December 2018, the following Directors of the Company had long position in the ordinary shares of HK\$0.1 each of the Company:

<b>Name of Director</b>	<b>Capacity</b>	<b>Number of issued shares held</b>	<b>Percentage of the issued share capital of the Company</b>
Harry Yang	Beneficial owner	1,000,600	0.014%
Lu Xin	Beneficial owner	6,500,000	0.093%
Tse Hau Yin, Aloysius	Beneficial owner	5,458,000	0.078%

Save as disclosed above, as at 31 December 2018, none of the Directors or chief executives of the Company had any interests or short positions in any shares, share options, underlying shares or debentures 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 2018, 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 2018, 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 Co., Ltd. (“Sinochem Group”) <sup>(Note 1)</sup>	3,698,660,874	52.65%
Sinochem Corporation <sup>(Note 1)</sup>	3,698,660,874	52.65%
Sinochem Hong Kong (Group) Company Limited (“Sinochem HK”) <sup>(Note 2)</sup>	3,698,660,874	52.65%
Nutrien Ltd. <sup>(Note 3)</sup>	1,563,312,141	22.26%
Potash Corporation of Saskatchewan Inc. (“Potash Corporation”) <sup>(Note 3)</sup>	1,563,312,141	22.26%
PCS (Barbados) Investment Company Limited (“PCS”) <sup>(Note 4)</sup>	1,563,312,141	22.26%

*Notes:*

- Sinochem HK is a wholly-owned subsidiary of Sinochem Corporation (中國中化股份有限公司). Sinochem Corporation is a 98% owned subsidiary of Sinochem Group Co., Ltd. (中國中化集團有限公司). 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.
- Sinochem HK was beneficially interested in 3,698,660,874 ordinary shares of the Company.
- PCS is a wholly-owned subsidiary of Potash Corporation. Potash Corporation is a wholly-owned subsidiary of Nutrien Ltd. Accordingly, Nutrien Ltd. and Potash Corporation are deemed to be interested in 1,563,312,141 ordinary shares of the Company, being corporate interest beneficially held by PCS.
- PCS was beneficially interested in 1,563,312,141 ordinary shares of the Company.

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 2018, which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

## 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 2018, 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.

### I. One-off Connected Transactions

For the year ended 31 December 2018, the Group conducted the following one-off connected transactions that are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

#### 1. **Acquisition by Sinochem Fertilizer of the Trust Beneficial Rights under the Trust Scheme from Sinochem Finance**

On 12 March 2018, Sinochem Fertilizer (as the transferee) entered into the Transfer Agreement with Sinochem Finance (as the transferor) and FOTIC (as the trustee), pursuant to which Sinochem Finance agreed to transfer, and Sinochem Fertilizer agreed to acquire, the Trust Beneficial Rights under the Trust Schemes established by FOTIC at a consideration of RMB296,420,000. Sinochem Fertilizer paid the above consideration to Sinochem Finance on 15 March 2018. The Trust Beneficial Rights were transferred at par value based on the carrying value of the corresponding trust units of the principal of the Trust Schemes in the sum of RMB296,420,000.

Sinochem Fertilizer paid to Sinochem Finance the trust income (amounting to RMB2,463,123.89) to which Sinochem Finance should be entitled prior to the date on which the transfer of the Trust Beneficial Rights was completed. After the transfer of the Trust Beneficial Rights was completed, FOTIC should distribute the trust income under the Trust Schemes to Sinochem Fertilizer on predetermined dates as stipulated in the Trust Schemes.

Sinochem Fertilizer is an indirect wholly-owned subsidiary of the Company. Sinochem Finance is a wholly-owned subsidiary of Sinochem Corporation, which is owned as to 98% by Sinochem Group. Sinochem Group is the ultimate controlling shareholder of the Company, holding an effective interest of approximately 52.65% of the Company. Accordingly, Sinochem Finance is a connected person of the Company. FOTIC, held as to 96.22% by Sinochem Corporation and 3.78% by Sinochem Finance, is also a connected person of the Company. The transaction constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the transaction are more than 0.1% but less than 5%, the transaction is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transaction, please refer to the announcement dated 12 March 2018 published by the Company.

**2. Provision of Financial Assistance by Sinochem Fertilizer to Sinochem Agriculture and Sinochem Corporation**

On 26 November 2018, Sinochem Fertilizer (as the lender) entered into the Entrusted Loan Contract with Sinochem Agriculture (as the borrower) and Sinochem Finance (as the lending agent), with a term from 20 December 2018 to 15 December 2019. Pursuant to the Entrusted Loan Contract, Sinochem Fertilizer agreed to provide the Entrusted Loan in a total principal amount of not more than RMB1 billion (which is of a revolving nature) to Sinochem Agriculture through Sinochem Finance. The interest rate of the Entrusted Loan is 4.385% per annum. Sinochem Agriculture shall use the Entrusted Loan for its daily working capital, including the procurement and storage of autumn grain crops. Sinochem Agriculture shall make a withdrawal application to Sinochem Fertilizer in writing through Sinochem Finance during the term of the Entrusted Loan Contract and within the total principal amount of the Entrusted Loan. The maturity date of each loan shall not exceed the term of the Entrusted Loan Contract. Sinochem Agriculture shall repay the principal of each loan to Sinochem Fertilizer through Sinochem Finance on the maturity date of such loan, and shall pay any interest accrued on such loan to Sinochem Fertilizer through Sinochem Finance on a quarterly basis.

On 21 November 2018, Sinochem Fertilizer (as the lender) also entered into the Agreement for the Use of Fund with Sinochem Agriculture and Sinochem Corporation (each as a borrower), with a term from 20 December 2018 to 14 December 2019. Pursuant to the Agreement for the Use of Fund, Sinochem Fertilizer agreed to provide the Fund in a total amount of not more than RMB1.1 billion (which is of a revolving nature) to Sinochem Agriculture and Sinochem Corporation. The interest rate for the use of the Fund by Sinochem Agriculture is 4.5675% per annum, and the interest for the use of the Fund by Sinochem Corporation is 3.915% per annum. Sinochem Agriculture shall use the Fund for its equity investment in the sectors of agricultural materials and agricultural services, and Sinochem Corporation shall use the Fund for its daily working capital. Sinochem Agriculture and/or Sinochem Corporation shall make a withdrawal application to Sinochem Fertilizer in writing during the term of the Agreement for the Use of Fund and within the total amount of the Fund. The maturity date of each fund shall not exceed the term of the Agreement for the Use of Fund. Sinochem Agriculture and/or Sinochem Corporation shall repay each fund to Sinochem Fertilizer on the maturity date of such fund, and shall pay any interest accrued on such fund to Sinochem Fertilizer on a quarterly basis.

Sinochem Corporation issued the Letter of Undertaking to Sinochem Fertilizer on 2 November 2018, pursuant to which Sinochem Corporation had undertaken to provide a guarantee in favour of Sinochem Fertilizer for the joint and several liabilities in connection with all the contractual obligations of Sinochem Agriculture under the Entrusted Loan Contract and the Agreement for the Use of Fund.

Each of Sinochem Agriculture and Sinochem Corporation is a subsidiary of Sinochem Group, which is the ultimate controlling shareholder of the Company. Accordingly, each of Sinochem Agriculture and Sinochem Corporation is a connected person of the Company. Therefore, the transactions contemplated under the Entrusted Loan Contract and the Agreement for the Use of Fund constitute connected transactions of the Company under Chapter 14A of the Listing Rules. Given that one or more of the applicable percentage ratios in respect of the transactions under the Entrusted Loan Contract and the Agreement for the Use of Fund in aggregate are more than 5%, such transactions are subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Given that one or more of the applicable percentage ratios in respect of the transactions under the Entrusted Loan Contract and the Agreement for the Use of Fund in aggregate are more than 25% but less than 100%, such transactions also constitute a major transaction of the Company under Chapter 14 of the Listing Rules and are subject to the reporting, announcement and shareholders' approval requirements under Chapter 14 of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 7 November 2018, and the circular dated 5 December 2018 published by the Company. The transactions under the Entrusted Loan Contract and the Agreement for the Use of Fund have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 20 December 2018.

## II. CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2018, the Group's continuing connected transactions are listed below, which are subject to the reporting, announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules. During the year, the Company have followed the pricing policies and guidelines formulated at the time when such transactions were entered into.

### 1. ***Sulphur Import Framework Agreements among Sinochem Fertilizer, Dohigh Trading and Sinochem Group***

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

On 11 December 2017, Dohigh Trading and Sinochem Fertilizer entered into a sulphur, fertilizer and other fertilizer raw materials import framework agreement (the "Sulphur Import Framework Agreement") with Sinochem Group, pursuant to which Sinochem Group would import sulphur, fertilizer and other fertilizer raw materials sourced by Dohigh Trading and sell them to Sinochem Fertilizer during the period from 1 January 2018 to 31 December 2018 (both days inclusive). Pursuant to the Sulphur Import Framework Agreement, Sinochem Group would import sulphur, fertilizer and other fertilizer raw materials sourced by Dohigh Trading only, and sell them all to Sinochem Fertilizer except for the sulphur, fertilizer and other fertilizer raw materials imported by Sinochem Group on behalf of its other customers.



Under the Sulphur Import Framework Agreement, the pricing principles for the sale and purchase of sulphur, fertilizer and other fertilizer raw materials between the parties were as follows: (i) the price paid by Sinochem Group to Dohigh Trading for sulphur, fertilizer 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, fertilizer 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 reports published by certain independent commodity information providers such as Argus Media and Baichuan (百川資訊).

Under the Sulphur Import Framework Agreement, the annual cap for the year ended 31 December 2018 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from Dohigh Trading was US\$47,000,000; the annual cap for the year ended 31 December 2018 in respect of the sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer was RMB315,000,000.

2) *New Sulphur Import Framework Agreement*

On 30 October 2018, Dohigh Trading and Sinochem Fertilizer renewed the Sulphur 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 2019 to 31 December 2019 (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 2019 in respect of the purchase of sulphur, fertilizer and other fertilizer raw materials by Sinochem Group from Dohigh Trading is US\$95,130,000; the annual cap for the year ending 31 December 2019 in respect of the sale of sulphur, fertilizer and other fertilizer raw materials from Sinochem Group to Sinochem Fertilizer is RMB665,900,000.

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 applicable percentage ratios in respect of the annual caps for the continuing connected transactions under the Sulphur Import 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. Given that the applicable percentage ratios in respect of the annual caps for the continuing connected transactions under 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 11 December 2017 and 30 October 2018, and the circular dated 20 November 2018 published by the Company. The continuing connected transactions under the New Sulphur Import Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 20 December 2018.

## **2. Fertilizer Sales Co-operation Framework Agreements among Sinochem Fertilizer, Sinochem Macao and Sinochem Group**

### *1) Fertilizer Sales Co-operation Framework Agreement*

On 30 October 2017, Sinochem Macao and Sinochem Fertilizer 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 2018 to 31 December 2018 (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, 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 shall be 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 shall be 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 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 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 2018 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group was US\$929,000,000; the annual cap for the year ended 31 December 2018 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group was RMB6,596,000,000.

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

On 30 October 2018, Sinochem Macao and Sinochem Fertilizer renewed the 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 2019 to 31 December 2019 (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 2019 in respect of the continuing connected transactions between Sinochem Macao and Sinochem Group is US\$1,080,000,000; the annual cap for the year ending 31 December 2019 in respect of the continuing connected transactions between Sinochem Fertilizer and Sinochem Group is RMB7,960,000,000.

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 contemplated 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 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 Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 30 October 2017 and 30 October 2018, and the circulars dated 20 November 2017 and 20 November 2018 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 20 December 2017 and 20 December 2018, respectively.

### **3. *The MOU between Sinochem Macao and Canpotex***

On 28 December 2017, Sinochem Macao and Canpotex entered into the MOU, pursuant to which Sinochem Macao agreed to purchase an annual volume of 500,000 tonnes of red standard grade potash from Canpotex for each of the three years ending 31 December 2020. In addition, if mutually agreed upon by the parties, Sinochem Macao will have the option to purchase from Canpotex further volumes up to 500,000 tonnes of Canadian potash per year comprised of the following grades: red standard grade potash, red granular grade potash, white fine standard grade potash and white standard grade potash.

Under the MOU, prices will be determined on a six-month basis through mutual negotiations between the parties with reference to prevailing international market potash prices and competitive sea import prices to the PRC. If Sinochem Macao and Canpotex cannot reach final agreements on prices within 90 days from the last day of the previous six-month pricing period, 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 (百川信息).

The annual caps for the three years ending 31 December 2020 in respect of the continuing connected transactions under the MOU are US\$250,000,000, US\$260,000,000, and US\$270,000,000, respectively.

Nutrien is a substantial shareholder of the Company, and Canpotex is owned as to 50% by Nutrien. As such, Canpotex constitutes a connected person of the Company. The transactions contemplated under the MOU constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual caps for 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 Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 28 December 2017, and the circular dated 12 February 2018 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 of the Company held on 2 March 2018.



**4. Financial Services Framework Agreement between the Company and Sinochem Finance (as Revised by the Supplemental Agreement)**

On 9 December 2016 and 17 January 2018, the Company and Sinochem Finance entered into a financial services framework agreement (the “Financial Services Framework Agreement”) and its supplemental agreement (the “Supplemental Agreement”), respectively. Pursuant to the Financial Services Framework Agreement (as revised by the Supplemental Agreement), the Group will, from time to time, utilize the financial services available from Sinochem Finance as it deems necessary during the period ending 31 December 2019, which include the Deposit Services, provision of Loan 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 CBRC, and pay the relevant interests and service fees to or receive deposit interests from Sinochem Finance in accordance with the Financial Services Framework Agreement (as revised by the Supplemental Agreement). The interests for the Deposit Services, and the fees charged for the provision of guarantees, internet banking services and other financial services approved by the CBRC are determined by the standard rates as promulgated by the PBOC from time to time or the prevailing market rates. The interest payable for the provision of Loans Services, the service fee payable for the arrangement of entrustment loans and commercial bills of exchange services shall not exceed the service fee and relevant interest payable on such services under the same terms obtainable from independent commercial banks. No service fee is payable for buyer financing services and settlement services.

Under the Financial Services Framework Agreement (as revised by the Supplemental Agreement), the maximum daily outstanding balance of the deposits placed by the Group with Sinochem Finance for each of the two years ending 31 December 2019 is RMB1,000,000,000. In respect of the Other Financial Services, the annual cap for each of the two 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 (as revised by the Supplemental Agreement) constitute continuing connected transactions of the Company. Given the applicable percentage ratios in respect of the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement (as revised by the Supplemental Agreement) are more than 5%, the Deposit Services are subject to the reporting, announcement, annual review and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. Given the applicable percentage ratios in respect of the maximum daily outstanding balance of the Deposit Services under the Financial Services Framework Agreement (as revised by the Supplemental Agreement) are more than 5% but less than 25%, the Deposit Services also constitute a discloseable transaction under Chapter 14 of the Listing Rules and are subject to the reporting and announcement requirements.

Given that the applicable percentage ratios in respect of the Other Financial Services under the Financial Services Framework Agreement (as revised by the Supplemental Agreement) are more than 0.1% but less than 5%, the Other Financial Services are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As the Loan Services provided to the Group by Sinochem Finance (excluding entrustment loans) constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance, pursuant to Rule 14A.90 of the Listing Rules, the continuing connected transactions involving the provision of Loan Services 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 2016 and 17 January 2018, and the circular dated 12 February 2018 published by the Company. The Deposit Services under the Financial Services Framework Agreement (as revised by the Supplemental Agreement) have been approved by the independent shareholders of the Company at the special general meeting held on 2 March 2018.

## **5. Fertilizer Sale Framework Agreements between Sinochem Fertilizer and Sinochem Agriculture**

### *1) Fertilizer Sale Framework Agreement*

On 11 December 2017, Sinochem Fertilizer and Sinochem Agriculture entered into a fertilizer sale framework agreement (the "Fertilizer Sale Framework Agreement"), pursuant to which Sinochem Fertilizer would, during the period from 1 January 2018 to 31 December 2018 (both days inclusive), sell its fertilizer products to Sinochem Agriculture who would then sell such products to its customers, so as to expand the market share of Sinochem Fertilizer by taking advantage of Sinochem Agriculture's extensive customer base in the agricultural sector.

Pursuant to the Fertilizer Sale Framework Agreement, Sinochem Fertilizer would sell fertilizer products to Sinochem Agriculture at the fair market price of such fertilizer products at the time of the transaction. In determining the fair market price of fertilizer products sold by Sinochem Fertilizer to Sinochem Agriculture, the Group generally makes reference to weekly reports published by certain independent commodity information providers such as Baichuan (百川信息).

Under the Fertilizer Sale Framework Agreement, the annual cap for the year ended 31 December 2018 in respect of the sale of fertilizer products by Sinochem Fertilizer to Sinochem Agriculture was RMB150,000,000.

2) *New Fertilizer Sale Framework Agreement*

On 24 December 2018, Sinochem Fertilizer and Sinochem Agriculture renewed the Fertilizer Sale Framework Agreement (the “New Fertilizer Sale Framework Agreement”), pursuant to which Sinochem Fertilizer will, during the period from 1 January 2019 to 31 December 2019 (both days inclusive), continue to sell its fertilizer products to Sinochem Agriculture who will then sell such products to its customers. The terms of the New Fertilizer Sale Framework Agreement are substantially the same as those of the Fertilizer Sale Framework Agreement.

Under the New Fertilizer Sale Framework Agreement, the annual cap for the year ending 31 December 2019 in respect of the sale of fertilizer products by Sinochem Fertilizer to Sinochem Agriculture has been revised from RMB250,000,000 to RMB820,000,000.

Sinochem Group is the ultimate controlling shareholder of the Company. Sinochem Agriculture is a wholly-owned subsidiary of Sinochem Group, and is therefore a connected person of the Company. Pursuant to Chapter 14A of the Listing Rules, the transactions contemplated under the Fertilizer Sale Framework Agreement and the New Fertilizer Sale Framework Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Fertilizer Sale 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 Chapter 14A of the Listing Rules. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the New Fertilizer Sale 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 11 December 2017, 24 December 2018 and 11 February 2019, and the circular dated 26 February 2019 published by the Company. The continuing connected transactions under the New Fertilizer Sale Framework Agreement have been approved by the independent shareholders of the Company at the special general meeting of the Company held on 13 March 2019.

**6. *Agrichemical Framework Agreements between Sinochem Fertilizer and Sinochem Group***

1) *Agrichemical Framework Agreement*

On 11 December 2017, Sinochem Fertilizer and Sinochem Group (for and on behalf of its subsidiaries) entered into a framework agreement in relation to the purchase of agrichemical, seed and other related products (the “Agrichemical Framework Agreement”), pursuant to which the subsidiaries of Sinochem Group would sell to Sinochem Fertilizer certain agrichemical, seed and other related products during the period from 1 January 2018 to 31 December 2018 (both days inclusive).

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 submitted its purchase plan for the relevant products. In determining the fair market price of the agrichemical, seed and other related products, the Group generally makes 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 2018 in respect of the continuing connected transactions under the Agrichemical Framework Agreement has been revised from RMB13,500,000 to RMB20,000,000.

2) *New Agrichemical Framework Agreement*

On 26 November 2018, Sinochem Fertilizer and Sinochem Group (for and on behalf of its subsidiaries) 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 subsidiaries of Sinochem Group will continue to sell to Sinochem Fertilizer certain agrichemical, seed and other related products during the period from 1 January 2019 to 31 December 2019 (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 2019 in respect of the continuing connected transactions under the New Agrichemical Framework Agreement is RMB68,000,000.

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 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 Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcements dated 11 December 2017 and 26 November 2018 published by the Company.



**7. Lease Contract between Sinochem Fertilizer and Chemsunny (as Extended by the Supplemental Agreements)**

On 28 January 2015, 23 March 2018 and 11 December 2018, Sinochem Fertilizer entered into a lease contract (the "Lease Contract"), and its first supplemental agreement (the "First Supplemental Agreement") and second supplemental agreement (the "Second Supplemental Agreement") with Chemsunny, respectively, pursuant to which Sinochem Fertilizer (as the lessee) will lease the office spaces in Chemsunny World Trade Centre from Chemsunny (as the lessor) during the period ending 31 December 2020. The rentals and the management fees of the Properties are RMB1,921,987.38 and RMB155,310.21 per month, respectively, payable by Sinochem Fertilizer on a quarterly basis.

The rentals and the management fees of the Properties shall be determined based on arm's length negotiations between the Group and the Chemsunny on the prevailing market rates and on normal commercial terms. When determining the rentals and the management fees, 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 2020 in respect of the continuing connected transactions under the Lease Contract (as extended by the First Supplemental Agreement and the Second Supplemental Agreement) is RMB40,000,000.

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 14A of the Listing Rules, the transactions contemplated under the Lease Contract (as extended by the First Supplemental Agreement and the Second Supplemental Agreement) constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the Lease Contract (as extended by the First Supplemental Agreement and the Second Supplemental 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 Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 28 January 2015, 23 March 2018 and 11 December 2018 published by the Company.

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

On 9 December 2016, Sinochem Macao entered into a service agreement (the "UK Service Agreement") with Sinochem UK, pursuant to which Sinochem UK will provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (which mainly include salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs) during the period from 1 January 2017 to 31 December 2019 (both days inclusive). Pursuant to the UK Service Agreement, the fee payable by Sinochem Macao shall range from US\$4 to US\$10 per tonne of products.

Under the 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 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 contemplated under the UK Service Agreement constitute continuing connected transactions of the Company. Given that the applicable percentage ratios in respect of the annual cap for the continuing connected transactions under the UK Service Agreement are more than 0.1% but less than 5%, such transactions are subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

For detailed information on the aforesaid transactions, please refer to the announcement dated 9 December 2016 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 2018 are set out below:**

Name of Transactions	Currency	For the year ended 31 December 2018	
		Annual Caps (‘000)	Annual Transacted Amount (‘000)
1. Sulphur Import Framework Agreement			
1) Dohigh Trading supplies sulphur, fertilizer and other fertilizer raw materials to Sinochem Group	USD	47,000	27,982
2) Sinochem Fertilizer purchases sulphur, fertilizer and other fertilizer raw materials from Sinochem Group	RMB	315,000	181,265
2. Fertilizer Sales Co-operation Framework Agreement			
1) Sinochem Macao supplies fertilizer products to Sinochem Group	USD	929,000	523,212
2) Sinochem Fertilizer purchases fertilizer products from Sinochem Group	RMB	6,596,000	3,668,276
3. Sinochem Macao purchases Canadian potash from Canpotex	USD	250,000	82,836
4. Financial Services Framework Agreement			
1) Maximum daily outstanding balance of deposits with Sinochem Finance	RMB	1,000,000	931,687
2) Other Financial Services provided by Sinochem Finance (save for the provision of loans to the Group)	RMB	10,000	2,689
5. Sinochem Fertilizer supplies fertilizer products to Sinochem Agriculture	RMB	150,000	87,814
6. Sinochem Fertilizer purchases certain agrichemical, seed and other related products from Sinochem Group	RMB	20,000	10,651
7. Sinochem Fertilizer leases office spaces from Chemsunny	RMB	40,000	26,434
8. Sinochem Macao utilizes local supplier relations and logistics services from Sinochem UK	USD	2,300	2,300

Transactions with joint ventures and associates, and loans from Sinochem Group, Sinochem Finance and related parties, which are disclosed as related party disclosures in note 38 to the financial statements of the annual report, do not fall under the definition of connected transactions or continuing connected transactions or were fully exempt under Chapter 14A of the Listing Rules and thus are not disclosed above.

Save as disclosed, there are no other connected transactions or continuing connected transactions of the Company which require disclosure in accordance with the Listing Rules.

#### 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 2018 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 Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagement 3000 (Revised), *Assurance Engagements other than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740, *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules*, issued by Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Main Board Listing Rules 14A.56. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

### CONTRACTS OF SIGNIFICANCE BETWEEN THE COMPANY AND THE CONTROLLING SHAREHOLDER

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

## MAJOR DISCLOSEABLE EVENTS

On 24 July 2018, Sinochem Fertilizer (as the lender) entered into the Entrusted Loan Contract with Yangmei Pingyuan (as the borrower) and Sinochem Finance (as the lending agent), pursuant to which Sinochem Fertilizer agreed to provide the Entrusted Loan in the principal amount of RMB670,000,000 to Yangmei Pingyuan through Sinochem Finance at an interest rate of 6.05% per annum. The term of the Entrusted Loan is from 24 July 2018 to 23 July 2019. The Entrusted Loan shall be used for the replenishment of the daily working capital of Yangmei Pingyuan. For detailed information on the Entrusted Loan and the defined terms used above, please refer to the announcement dated 24 July 2018 published by the Company.

On 31 August 2018, Sinochem Fertilizer and Sinochem Changshan entered into the DES Agreement, pursuant to which Sinochem Fertilizer agreed to convert an amount of RMB1,820,000,000 in the outstanding shareholders' loans extended by it to Sinochem Changshan into an additional registered capital of Sinochem Changshan. After the completion of the transaction, the registered capital of Sinochem Changshan has increased from RMB1,018,650,000 to RMB2,838,650,000, and the shareholding percentage of Sinochem Fertilizer in Sinochem Changshan has increased from 94.78% to 98.16%. Sinochem Changshan remains as a non-wholly owned subsidiary of the Company, and its accounts continues to be consolidated into the accounts of the Group. The Company has obtained the written approval from Sinochem HK, the controlling shareholder of the Company, in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules. For detailed information on the transaction and the defined terms used above, please refer to the announcement dated 31 August 2018, and the circular dated 26 October 2018 published by the Company.

Save as disclosed above and in this report, the Company had no other major discloseable events during the year ended 31 December 2018.

## 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

During the period from 6 September 2018 to 23 January 2019, the public float of the Company was below 25% of the total issued share capital of the Company as prescribed by Rule 8.08(1)(a) of the Listing Rules. With a view to assist the Company to restore its public float in compliance with Rule 8.08(1)(a) of the Listing Rules, the Directors have disposed of a total of 6,654,600 shares of the Company, representing approximately 0.0947% of the total issued share capital of the Company, during the period from 3 January 2019 to 23 January 2019. Upon completion of the above disposals, the public float of the Company has been restored to approximately 25.0009%. Accordingly, the minimum public float as required under Rule 8.08(1)(a) of the Listing Rules has been restored. For more details, please refer to the announcements of the Company dated 3 January 2019 and 24 January 2019.

Save as disclosed above, 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 2018 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 57.

## RETIREMENT BENEFITS SCHEME

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

## HOUSING FUNDS

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

## POST BALANCE SHEET EVENT

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

## AUDITOR

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

**Qin Hengde**

*Executive Director and Chief Executive Officer*

Hong Kong, 28 March 2019

# INDEPENDENT AUDITOR'S REPORT



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

*(Incorporated in Bermuda with limited liability)*

### **OPINION**

We have audited the consolidated financial statements of Sinofert Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 199, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 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 ("HKSA") 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 judgment, 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 potential impairment of goodwill

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Refer to note 17 to the consolidated financial statements and the accounting policies in note 2(m)(ii).

#### The Key Audit Matter

Goodwill amounted to RMB531 million as at 31 December 2018 arose in relation to the acquisition of Sinochem Yunlong Co., Ltd. ("Sinochem Yunlong"), a subsidiary in the fertilizer industry acquired by the Group.

Management determined the recoverable amounts of the cash-generating units ("CGUs") to which these assets were allocated by means of discounted cash flow forecasts prepared for each of these CGUs.

Management's impairment assessment involves significant judgment, particularly in determining estimated selling prices, selling quantities and the discount rates applied, all of which can be inherently uncertain.

We identified assessing potential impairment of goodwill of Sinochem Yunlong as a key audit matter because determining the key impairment assumptions involves a significant degree of management judgment and may be subject to management bias.

#### How the matter was addressed in our audit

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Our audit procedures to assess potential impairment of goodwill included the following:

- assessing management's identification of CGUs and the allocation of assets and liabilities to each CGU 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 discounted cash flow forecasts with the approved budget;
- engaging our internal valuation specialists to assist us in assessing the impairment assessment methodology adopted and the discount rates used in the discounted cash flow forecasts by performing recalculations with market and other external available information derived from companies in the similar industries;
- evaluating the sensitivity analysis prepared by management for each of the key assumptions, including estimated 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 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 in note 2(w).*

**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 fertilizers are collected by the customers from the Group's premises or when the products are delivered to the location designated by customers, which is taken to be the point in time when the control of the goods have passed to 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 sales transactions recorded around the year end with the underlying goods delivery notes to assess if the related revenue had been recognized in the appropriate accounting period; and
- identifying manual journal entries with specific risk criteria relating to revenue which were raised during the year, enquiring of management the reasons for such adjustments and inspecting underlying documentation.



## **INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND 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 HKSAAs 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 HKSAAs, we exercise professional judgment 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.

## INDEPENDENT AUDITOR'S REPORT (CONTINUED)

- 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 Yu Wai Sum.

### **KPMG**

*Certified Public Accountants*

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

28 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018  
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
<b>Revenue</b>	4(a)	<b>22,996,328</b>	17,643,812
Cost of sales		<b>(21,083,401)</b>	(16,272,189)
<b>Gross profit</b>		<b>1,912,927</b>	1,371,623
Other income and gains	5	<b>312,221</b>	240,505
Selling and distribution expenses		<b>(906,281)</b>	(815,275)
Administrative expenses		<b>(634,745)</b>	(825,344)
Other expenses and losses		<b>(66,342)</b>	(1,742,784)
Share of results of associates		<b>17,669</b>	(171,404)
Share of results of joint ventures		<b>28,315</b>	13,736
Finance costs	6	<b>(212,632)</b>	(340,990)
Loss on disposal of a joint venture		<b>–</b>	(13)
<b>Profit/(loss) before taxation</b>	7	<b>451,132</b>	(2,269,946)
Income tax	8(a)	<b>37,833</b>	(10,938)
<b>Profit/(loss) for the year</b>		<b>488,965</b>	(2,280,884)
<b>Profit/(loss) for the year attributable to:</b>			
– Owners of the Company		<b>460,486</b>	(2,207,504)
– Non-controlling interests		<b>28,479</b>	(73,380)
		<b>488,965</b>	(2,280,884)

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

For the year ended 31 December 2018  
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
<b>Profit/(loss) for the year</b>		<b>488,965</b>	(2,280,884)
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Equity investments at fair value through other comprehensive income – net movement in fairvalue reserve (non-recycling)		<b>(27,804)</b>	–
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of overseas subsidiaries		<b>99,976</b>	(102,621)
Changes in fair value of available-for-sale investments		–	29,483
<b>Other comprehensive income for the year</b>	9	<b>72,172</b>	(73,138)
<b>Total comprehensive income for the year</b>		<b>561,137</b>	(2,354,022)
<b>Total comprehensive income attributable to:</b>			
– Owners of the Company		<b>532,658</b>	(2,280,642)
– Non-controlling interests		<b>28,479</b>	(73,380)
		<b>561,137</b>	(2,354,022)
<b>Earnings/(loss) per share</b>			
Basic and diluted (RMB)	13	<b>0.0656</b>	(0.3143)

The notes on pages 111 to 199 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 2018  
(Expressed in Renminbi)

	Note	As at 31 December	
		2018 RMB'000	2017 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	14	2,474,431	2,427,511
Lease prepayments	15	474,636	487,703
Mining rights	16	546,176	579,077
Goodwill	17	843,442	829,075
Interests in associates	18	516,384	509,912
Interests in joint ventures	19	413,989	385,674
Other equity securities	20	498,495	–
Available-for-sale investments	20	–	447,252
Prepayments for acquisition of property, plant and equipment		61,564	49,467
Deferred tax assets	32	57,322	17,702
Other long-term assets	21	23,350	13,310
		<b>5,909,789</b>	5,746,683
<b>Current assets</b>			
Inventories	22	5,554,467	5,433,138
Trade and bills receivables	23	534,717	235,991
Other receivables and prepayments	24	2,337,747	1,883,056
Loans to related parties	25	1,970,000	670,000
Lease prepayments	15	13,854	13,810
Other financial assets	26	197,725	–
Time deposits		500,000	–
Cash and cash equivalents	27	589,130	286,816
Assets held for sale		–	8,048,139
		<b>11,697,640</b>	16,570,950
<b>Current liabilities</b>			
Trade and bills payables	28	3,143,134	3,452,676
Contract liabilities	29	2,937,545	–
Other payables and receipt in advance	30	794,135	6,715,129
Interest bearing borrowings – due within one year	31	3,085,385	122,000
Tax liabilities		13,872	12,333
		<b>9,974,071</b>	10,302,138
<b>Net current assets</b>		<b>1,723,569</b>	6,268,812
<b>Total assets less current liabilities</b>		<b>7,633,358</b>	12,015,495

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2018  
(Expressed in Renminbi)

	Note	As at 31 December	
		2018 RMB'000	2017 RMB'000
<b>Non-current liabilities</b>			
Interest bearing borrowings – due after one year	31	–	4,995,535
Deferred income		73,075	86,413
Deferred tax liabilities	32	215,322	207,912
Other long-term liabilities		103,982	98,523
		<b>392,379</b>	5,388,383
<b>NET ASSETS</b>		<b>7,240,979</b>	6,627,112
<b>CAPITAL AND RESERVES</b>			
Issued equity	33	5,887,384	8,267,384
Reserves		1,455,865	(1,428,954)
Total equity attributable to owners of the Company		<b>7,343,249</b>	6,838,430
Non-controlling interests		<b>(102,270)</b>	(211,318)
<b>TOTAL EQUITY</b>		<b>7,240,979</b>	6,627,112

The consolidated financial statements on pages 103 to 199 were approved and authorized for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

**Qin Hengde**  
Director

**Harry Yang**  
Director

The notes on pages 111 to 199 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

(Expressed in Renminbi)

Note	Attributable to owners of the Company											Total equity RMB'000
	Issued equity RMB'000	Capital and other reserve RMB'000 (note a)	Statutory reserve RMB'000 (note b)	Contributed surplus RMB'000 (note c)	Fair value reserve (recycling) RMB'000 (note d)	Fair value reserve (non-recycling) RMB'000 (note d)	Special reserve RMB'000 (note e)	Exchange reserve RMB'000 (note f)	Retained profits/ losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	
<b>Balance at 1 January 2017</b>	8,267,384	20,768	366,484	-	28,804	-	57,116	(521,083)	188,038	8,407,511	(137,938)	8,269,573
Loss for the year	-	-	-	-	-	-	-	-	(2,207,504)	(2,207,504)	(73,380)	(2,280,884)
Other comprehensive income for the year	-	-	-	-	29,483	-	-	(102,621)	-	(73,138)	-	(73,138)
<b>Total comprehensive income for the year</b>	-	-	-	-	29,483	-	-	(102,621)	(2,207,504)	(2,280,642)	(73,380)	(2,354,022)
Maintenance and production fund	e	-	-	-	-	-	3,636	-	(3,636)	-	-	-
Provision for onerous contract in relation to the disposal of interests in an associate		-	711,561	-	-	-	-	-	-	711,561	-	711,561
<b>Balance at 31 December 2017</b>	8,267,384	732,329	366,484	-	58,287	-	60,752	(623,704)	(2,023,102)	6,838,430	(211,318)	6,627,112
Impact on initial application of HKFRS 9	-	-	-	-	(58,287)	27,614	-	-	89,958	59,285	-	59,285
<b>Adjusted balance at 1 January 2018</b>	8,267,384	732,329	366,484	-	-	27,614	60,752	(623,704)	(1,933,144)	6,897,715	(211,318)	6,686,397
Profit for the year	-	-	-	-	-	-	-	-	460,486	460,486	28,479	488,965
Other comprehensive income for the year	-	-	-	-	-	(27,804)	-	99,976	-	72,172	-	72,172
<b>Total comprehensive income for the year</b>	-	-	-	-	-	(27,804)	-	99,976	460,486	532,658	28,479	561,137
Maintenance and production fund	e	-	-	-	-	-	4,677	-	(4,677)	-	-	-
Dividend declared		-	-	-	-	-	-	-	-	-	(6,555)	(6,555)
Capital injection to a subsidiary through the conversion of shareholder's loans	a	-	(87,124)	-	-	-	-	-	-	(87,124)	87,124	-
Transfer from share premium to contributed surplus	33(a)	(2,380,000)	-	-	2,380,000	-	-	-	-	-	-	-
Offset the accumulated losses		-	-	-	(471,480)	-	-	-	471,480	-	-	-
<b>Balance at 31 December 2018</b>	5,887,384	645,205	366,484	1,908,520	-	(190)	65,429	(523,728)	(1,005,855)	7,343,249	(102,270)	7,240,979

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

**For the year ended 31 December 2018**  
**(Expressed in Renminbi)**

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 Co., Ltd. (“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.

On 31 August 2018, Sinochem Fertilizer Company Limited (“Sinochem Fertilizer”) and Sinochem Jilin Changshan Chemical Co., Ltd. (“Sinochem Changshan”) entered into an debt for equity swap agreement, pursuant to which Sinochem Fertilizer agreed to convert an amount of RMB1,820,000,000 in the outstanding shareholder’s loans extended by it to Sinochem Changshan into an additional registered capital of Sinochem Changshan, which caused the non-controlling interests in the Group’s consolidated financial statements increased by RMB87,124,000 at the end of the reporting period.

- 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. Contributed surplus may be used to declare or pay a dividend or make a distribution by the Company in accordance with the Companies Act 1981 of Bermuda.
- d. Prior to 1 January 2018, fair value reserve (recycling) represents the cumulative net changes in fair value, net of tax, of available-for-sale investments held at the end of the reporting period in accordance with HKAS 39. This amount has been reclassified to fair value reserve (non-recycling) upon the initial adoption of HKFRS 9 at 1 January 2018. Fair value reserve (non-recycling) comprises the cumulative net change in the fair value, net of tax, of equity investments designated at fair value through other comprehensive income (FVOCI) under HKFRS 9 that are held at the end of reporting period.
- e. 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.
- f. Exchange reserve comprises all foreign currency differences arising from the translation of the financial statements presented in any currencies other than Renminbi (“RMB”) which are dealt with in accordance with the accounting policies as set out in note 2(x).

The notes on pages 111 to 199 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

(Expressed in Renminbi)

	2018 RMB'000	2017 RMB'000
<b>Operating activities</b>		
Profit/(loss) before taxation	451,132	(2,269,946)
Adjustments for:		
Share of results of associates	(17,669)	171,404
Share of results of joint ventures	(28,315)	(13,736)
Dividend income from listed equity securities	(4,347)	(1,930)
Write-off of payables	(553)	(7,751)
Adjustment to consideration payable	–	(18,563)
Release of deferred income	(13,488)	(19,946)
Interest income from related parties	(38,971)	(35,302)
Interest income from time deposits	(8,243)	–
Other interest income	(157,326)	(80,913)
Fair value changes of other financial assets	(1,305)	–
Finance costs	212,632	340,990
Provision on onerous contract in relation to the disposal of interests in an associate	–	711,561
Loss on disposal of a joint venture	–	13
Depreciation of property, plant and equipment	258,447	327,061
Amortization of lease prepayments	13,242	13,033
Amortization of mining rights	32,901	32,290
Amortization of other long-term assets	11,378	6,436
Reversal of loss on interests in associates	–	(30,754)
Impairment loss on available-for-sale investments	–	80,668
Impairment loss on property, plant and equipment	–	917,662
Impairment of trade receivables	1,528	–
Impairment of other receivables and prepayments	5,622	42
Impairment of prepayments for acquisition of property, plant and equipment	400	–
(Gain)/loss on disposal of property, plant and equipment	(7,206)	396
Expenditure of separation and hand-over of water/power/gas supply and property management facilities to entities designated by local government	29,192	–
Write-down of inventories	12,235	32,825
Operating cash flows before movements in working capital	751,286	155,540
Increase in inventories	(102,712)	(1,030,636)
Increase in trade and bills receivables	(252,373)	(150,732)
Increase in other receivables and prepayments	(415,205)	(337,714)
Increase in deferred income	150	1,106
Decrease in trade and bills payables	(328,051)	(1,063,309)
(Decrease)/increase in other payables and receipt in advance and contract liabilities	(447,824)	1,022,635
Cash used in operations	(794,729)	(1,403,110)
Income tax paid	(12,600)	(7,135)
<b>Net cash used in operating activities</b>	<b>(807,329)</b>	<b>(1,410,245)</b>



## CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the year ended 31 December 2018  
(Expressed in Renminbi)

	Note	2018 RMB'000	2017 RMB'000
<b>Investing activities</b>			
Purchase of property, plant and equipment		(464,178)	(274,185)
Proceeds from disposal of property, plant and equipment		11,966	2,814
Acquisition of other long-term assets		(21,418)	(7,695)
Additions of prepaid lease payments		(219)	–
Consideration paid for acquisition of Sinochem Yunlong		–	(211,437)
Consideration received from disposal of an associate		5,634,759	2,418,960
Loans to related parties		(1,970,000)	(1,244,000)
Loans repaid from an associate		670,000	1,244,000
Payment for purchase of other financial assets		(9,886,420)	(3,531,000)
Proceeds from sale of other financial assets		9,690,000	3,531,000
Placement of time deposits		(500,000)	–
Interest received from related parties		38,971	35,302
Interest income from other financial assets		152,987	80,913
Dividends received from associates		–	8,368
Dividends received from listed equity securities		4,347	1,930
Proceeds from disposal of a joint venture		–	2,053
<b>Net cash generated from investing activities</b>		<b>3,360,795</b>	2,057,023
<b>Financing activities</b>			
Repayment of bank and other loans	27(b)	(5,386,328)	(18,752,227)
Payment for purchase of bonds	27(b)	(470,000)	–
Repayment of short-term commercial paper		–	(2,000,000)
Proceeds from new bank and other loans	27(b)	3,821,828	19,834,227
Interests paid	27(b)	(218,298)	(388,142)
Dividends paid		(2,911)	(2,291)
<b>Net cash used in financing activities</b>		<b>(2,255,709)</b>	(1,308,433)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>297,757</b>	(661,655)
<b>Cash and cash equivalents at 1 January</b>	27(a)	<b>286,816</b>	972,118
Effect of foreign exchange rate changes		4,557	(23,647)
<b>Cash and cash equivalents at 31 December</b>	27(a)	<b>589,130</b>	286,816

The notes on pages 111 to 199 form part of these financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in RMB unless otherwise indicated)

## 1 GENERAL

Sinofert Holdings Limited (the “Company”, together with its subsidiaries hereinafter collectively referred to as the “Group”) is a limited company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its immediate holding company is Sinochem Hong Kong (Group) Company Limited (incorporated in Hong Kong) and its ultimate holding company is Sinochem Group. These entities do not produce financial statements available for public use. 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 39.

## 2 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. 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

The consolidated financial statements for the year ended 31 December 2018 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 other equity securities (see note 2(g)).
- financial instruments classified as other financial assets (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

The Company and subsidiaries incorporated in Hong Kong have their functional currency in Hong Kong dollars (“HK\$”) and subsidiaries established in the PRC, Macao Special Administrative Region (“Macao SAR”) and Republic of Singapore (“Singapore”) have their functional currencies in Renminbi (“RMB”) and United States dollars (“US\$”), respectively. As majority of the Group’s operation are conducted by the Group’s subsidiaries in the PRC, the consolidated financial statements are presented in RMB.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, 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 judgments 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.

Judgments 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 new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group’s financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as HKFRS 9.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### (i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognized the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	RMB'000
<b>Retained earnings</b>	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	89,958
<b>Fair value reserve (recycling)</b>	
Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI	(58,287)
<b>Fair value reserve (non-recycling)</b>	
Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI	58,287
Increase in fair value reserve (non-recycling) at 1 January 2018	79,047
Related tax	(19,762)
Transferred from retained earnings relating to equity securities now measured at FVOCI	(89,958)
	27,614

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

##### (i) HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

##### a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortized cost, at FVOCI and at fair value through profit or loss (FVPL).

These supersede HKAS 39's categories of held-to maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	<b>HKAS 39 carrying amount at 31 December 2017 RMB'000</b>	<b>Reclassification RMB'000</b>	<b>Remeasurement RMB'000</b>	<b>HKFRS 9 carrying amount at 1 January 2018 RMB'000</b>
<b>Financial assets measured at FVOCI (non-recyclable)</b>				
Other equity securities (note)	–	447,252	79,047	526,299
<b>Financial assets classified as available-for-sale under HKAS 39 (note)</b>	447,252	(447,252)	–	–
Deferred tax liabilities	(207,912)	–	(19,762)	(227,674)

Note: Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investments in equity securities not held for trading at FVOCI (non-recycling), as these investments are held for strategic purposes.



## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### (i) **HKFRS 9, Financial instruments, including the amendments to HKFRS 9, Prepayment features with negative compensation (continued)**

##### b. *Credit losses*

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognizes ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties).

Based on the Group’s assessment, this change in accounting policy does not have a significant impact on accumulated losses as compared with that recognized under HKAS 39 and no additional ECLs has been recognized by the Group at 1 January 2018.

##### c. *Transition*

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):
  - the determination of the business model within which a financial asset is held; and
  - the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognized for that financial instrument.

#### (ii) **HKFRS 15, Revenue from contracts with customers**

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### (ii) HKFRS 15, Revenue from contracts with customers (continued)

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has made an assessment on the cumulative effect of initial application. Based on the Group's assessment, the change in accounting policy does not have a significant impact on the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS 11 and HKAS 18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

#### a Timing of revenue recognition

Previously, revenue from sale of goods was generally recognized at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognized when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognizes revenue for the sale of that goods or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognizes revenue from sale of goods.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### (ii) HKFRS 15, Revenue from contracts with customers (continued)

##### b Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognized only if the Group has an unconditional right to consideration. If the Group recognizes the related revenue (see note 2(w)) before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognized when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognizes the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

To reflect these changes in presentation, “Receipt in advance” amounting to RMB3,481,748,000 at 1 January 2018, which were previously included in other payables and receipt in advance are now included under contract liabilities, as a result of the adoption of HKFRS 15.

Other new amendments and interpretation that are effective from 1 January 2018 does not have significant financial impact on these financial statements

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

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

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions, and cash flows and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(m)(ii)), 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). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. 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)(ii)). 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 Group's other comprehensive income.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

When the Group's share of losses exceeds its interest in the associate or the joint venture, 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 any other long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

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

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

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

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 policies described in note 2(m)(ii).

### (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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (f) Goodwill (continued)

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)(ii)).

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

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

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 35(f). These investments are subsequently accounted for as follows, depending on their classification.

#### (A) Policy applicable from 1 January 2018

##### *Investments other than equity investments*

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2(w)(iv)).
- FVOCI-recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- FVPL if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

#### (A) Policy applicable from 1 January 2018 (continued)

##### *Equity investments*

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in note 2(w)(iii).

#### (B) Policy applicable prior to 1 January 2018

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognized in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognized in profit or loss.

Investments which did not fall into any of the above categories were classified as available for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognized in other comprehensive income and accumulated separately in equity in the fair value reserve (recycling). Dividend income from equity investments and interest income from debt securities calculated using the effective interest method were recognized in profit or loss in accordance with the policies set out in notes 2(w)(iii) and 2(w)(iv), respectively. Foreign exchange gains and losses arising from debt securities were also recognized in profit or loss. When the investments were derecognized or impaired (see note 2(m)(i) – policy applicable prior to 1 January 2018), the cumulative gain or loss recognized in equity was reclassified to profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 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)(ii)).

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(y)).

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 (see note 2(j)).

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

Category	Years of depreciation
Buildings	20-30 years
Plant, machinery and equipment	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)(ii)). 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)(ii)) 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)(ii)). 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Credit losses and impairment of assets

##### (i) Credit losses from financial instruments and lease receivables

###### (A) Policy applicable from 1 January 2018

The Group recognizes a loss allowance for ECLs on financial assets measured at amortized cost (including cash and cash equivalents, trade and other receivables and loans to related parties).

Equity securities designated at FVOCI (non-recycling) is not subject to the ECL assessment.

###### *Measurement of ECLs*

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets and trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate;

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.



## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Credit losses and impairment of assets (continued)

#### (i) Credit losses from financial instruments and lease receivables (continued)

##### (A) Policy applicable from 1 January 2018 (continued)

###### *Measurement of ECLs (continued)*

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

###### *Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Credit losses and impairment of assets (continued)

##### (i) Credit losses from financial instruments and lease receivables (continued)

###### (A) Policy applicable from 1 January 2018 (continued)

###### *Significant increases in credit risk (continued)*

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income.

###### *Basis of calculation of interest income*

Interest income recognized in accordance with note 2(w)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Credit losses and impairment of assets (continued)

#### (i) Credit losses from financial instruments and lease receivables (continued)

##### (A) Policy applicable from 1 January 2018 (continued)

###### *Write-off policy*

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

##### (B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the “incurred loss” model, an impairment loss was recognized only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulties 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 reorganisation;
- 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (m) Credit losses and impairment of assets (continued)

##### (i) Credit losses from financial instruments and lease receivables (continued)

###### (B) Policy applicable prior to 1 January 2018 (continued)

If any such evidence existed, an impairment loss was determined and recognized as follows:

- For trade and other receivables and other financial assets carried at amortized cost, impairment loss was 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, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were 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 decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognized, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognized to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

When the recovery of a trade debtor or other financial assets carried at amortized cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognized in profit or loss.

- 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) Credit losses and impairment of assets (continued)

#### (i) Credit losses from financial instruments and lease receivables (continued)

##### (B) Policy applicable prior to 1 January 2018 (continued)

- For available-for-sale investments, the cumulative loss that had been recognized in the fair value reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognized in profit or loss was 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 were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognized in other comprehensive income.

#### (ii) Impairment of other non-current 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;
- goodwill;
- investments in associates and joint ventures; and
- investment in subsidiaries in the Company's statement of financial position

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.



(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (m) Credit losses and impairment of assets (continued)

#### (ii) Impairment of other non-current assets (continued)

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

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

- Reversals of impairment losses

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

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

### (n) Inventories

Inventories are assets which are held for sale in the ordinary course of business, in the process of production for such sale or in the form of materials or supplies to be consumed in the production process or in the rendering of services.

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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (n) Inventories (continued)

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.

The Group takes advantage of practical expedient in paragraph 94 of HKFRS 15 and recognizes the incremental costs of obtaining a contract as an expense if the amortisation period of the assets is less than one year.

### (o) Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortized cost using the effective interest method less allowance for credit losses (see note 2(m)(i)).

### (p) 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. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2(m)(i).

### (q) Trade and other payables

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (r) Contract liabilities

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see note 2(w)). A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see note 2(o)).

#### (s) Interest-bearing borrowings

Interest-bearing borrowings are measured initially at fair value less transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost using the effective interest method. Interest expense is recognized in accordance with the Group's accounting policy for borrowing costs (see note 2(y)).

#### (t) 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.

#### (u) Income tax

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

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

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (u) Income tax (continued)

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

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

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

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

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (v) Provisions and contingent liabilities

Provisions are recognized 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.

(Expressed in RMB unless otherwise indicated)

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (v) Provisions and contingent liabilities (continued)

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.

### (w) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods and the provision of services in the ordinary course of the Group's business.

Revenue is recognized when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

#### (i) Sale of goods

Revenue is recognized when the customers collect the goods from the Group's premises or when the products are delivered to the location designated by customers. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognized is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

The goods can only be returned due to product quality issue. Because the number of return is extremely low in previous years, it is highly probable that a significant reversal in the cumulative revenue recognized will not occur.

#### (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.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (w) Revenue and other income (continued)

#### (iv) Interest income

Interest income is recognized as it accrues using the effective interest method. For financial assets measured at amortized cost that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate is applied to the amortized cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(m)(i)).

#### (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 recognized as deferred income and subsequently recognized in profit or loss over the useful life of the related asset on a reasonable and systematic manner.

### (x) Translation of foreign currencies

The financial statements are presented in RMB, which is the currency of the primary economic environment in which the major entities of the Group operate. The functional currency of the Company is HKD.

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. The transaction date is the date on which the Company initially recognizes such non-monetary assets or liabilities. 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 RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB 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.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (y) 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.

#### (z) Non-current assets held for sale

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognized at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries, associates and joint ventures). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognized in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortized.

## 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (aa) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 2 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### (bb) Segment reporting

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

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

### 3 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the application of the Group's accounting policies which are described in note 2, the directors of the Company have 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 goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the CGUs 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. Details of the recoverable amount calculation are disclosed in note 17.

#### Provision of inventories

Inventories are stated at the lower of cost or 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. The carrying amount of inventories was disclosed in note 22.

#### Impairment on property, plant and equipment

In considering the impairment losses that may be required for the Group's property, plant and equipment and construction in progress, the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of fair value less cost of disposal and the value in use. It is difficult to precisely estimate fair value less cost of disposal because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present values, which require significant judgement relating to items such as the level of sales volume, selling price and amount of operating costs. Where the actual future cash flows are less than expected, a material impairment loss may arise. The carrying amount of property, plant and equipment was disclosed in note 14.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 4 REVENUE AND SEGMENT REPORTING

#### (a) Revenue

Revenue represents the sales value of fertilizers and related products. Disaggregation of revenue from contracts with customers by major products is as follows:

	2018 RMB'000	2017 RMB'000
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products		
– Sales of potash fertilizer	4,501,587	3,904,676
– Sales of nitrogen fertilizer	4,873,967	3,573,177
– Sales of compound fertilizer	5,891,047	4,822,852
– Sales of phosphate fertilizer	4,919,815	3,573,724
– Sales of monocalcium/dicalcium phosphate (“MCP/DCP”)	832,486	776,679
– Others	1,977,426	992,704
	<b>22,996,328</b>	17,643,812

No revenue from a single external customer accounts for 10% or more of the Group’s revenue during both years.

The Group takes advantage of the practical expedient in paragraph 122 of HKFRS 15 and does not disclose the remaining performance obligation as all of the Group’s sales contracts have an original expected duration of less than one year.

#### (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:

- Basic fertilizers: sourcing and trading of straight fertilizers such as nitrogen, phosphate and potash
- Distribution: building of distribution channels, sourcing and selling of compound fertilizers and new type of fertilizer
- Production: production and sales of fertilizers and MDCP

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

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

##### (i) Segment results

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 2. Segment profit/(loss) represents the the profit earned/(loss) made 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 reviews 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.

Given the production and trading of fertilizers are closely linked, the CODM considered segment assets and liabilities information was not relevant in assessing performance of and resources allocation to the operating segments. Such information was not reviewed by the CODM. As such, no segment assets and liabilities are presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

**4 REVENUE AND SEGMENT REPORTING (CONTINUED)**

(b) Segment reporting (continued)

(i) Segment results (continued)

2018

	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue					
External revenue	14,985,255	5,739,675	2,271,398	–	22,996,328
Internal revenue	487,138	2,978	1,566,390	(2,056,506)	–
Segment revenue	15,472,393	5,742,563	3,837,788	(2,056,506)	22,996,328
Segment gross profit	935,617	492,445	484,865	–	1,912,927
Segment profit	641,981	70,062	23,958	–	736,001
Share of results of associates					17,669
Share of results of joint ventures					28,315
Unallocated expenses					(248,421)
Unallocated income					130,200
Finance costs					(212,632)
<b>Profit before taxation</b>					<b>451,132</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

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

##### (i) Segment results (continued)

2017

	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Elimination RMB'000	Total RMB'000
Revenue					
External revenue	11,182,845	4,534,380	1,926,587	–	17,643,812
Internal revenue	457,668	831	1,419,806	(1,878,305)	–
Segment revenue	11,640,513	4,535,211	3,346,393	(1,878,305)	17,643,812
Segment gross profit	793,110	386,110	192,403	–	1,371,623
Segment profit/(loss)	579,158	(33,122)	(1,327,327)	–	(781,291)
Share of results of associates					(171,404)
Share of results of joint ventures					13,736
Unallocated expenses					(1,020,124)
Unallocated income					30,127
Finance costs					(340,990)
<b>Loss before taxation</b>					<b>(2,269,946)</b>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

4 REVENUE AND SEGMENT REPORTING (CONTINUED)

(b) Segment reporting (continued)

(ii) Other segment information

2018

	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Unallocated RMB'000	Total RMB'000
<b>Amounts included in the measures of segment profit:</b>					
Impairment of trade receivables	(66)	-	(1,462)	-	(1,528)
Impairment of other receivables and prepayments	-	-	(5,622)	-	(5,622)
Impairment of prepayments for acquisition of property, plant and equipment	-	-	(400)	-	(400)
Depreciation and amortization	(846)	(31,023)	(280,646)	(3,453)	(315,968)
Write-down of inventories	(2,641)	(5,263)	(4,331)	-	(12,235)
(Loss)/gain on disposal of property, plant and equipment	(28)	219	7,015	-	7,206
Write-off of payables	240	240	73	-	553

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

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

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

2017

	Basic fertilizers RMB'000	Distribution RMB'000	Production RMB'000	Unallocated RMB'000	Total RMB'000
<b>Amounts included in the measures of segment profit/(loss):</b>					
Impairment of other receivables and prepayments	-	-	-	(42)	(42)
Impairment loss on property, plant and equipment	-	(38,000)	(879,662)	-	(917,662)
Impairment loss on available-for-sale investments	-	-	-	(80,668)	(80,668)
Depreciation and amortization	(2,748)	(31,340)	(341,522)	(3,210)	(378,820)
Write-down of inventories	-	(13,316)	(19,509)	-	(32,825)
Gain/(loss) on disposal of property, plant and equipment	175	(819)	188	60	(396)
Write-off of payables	6,273	1,245	233	-	7,751
Adjustment to consideration payable	-	-	-	18,563	18,563
Provision for onerous contract in relation to the disposal of interests in an associate	-	-	-	(711,561)	(711,561)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 4 REVENUE AND SEGMENT REPORTING (CONTINUED)

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

##### (iii) Geographical information

The Group's operations are mainly located in Mainland China and 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 other equity securities/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	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
Mainland China	22,032,834	16,767,543	5,349,145	5,275,527
Others	963,494	876,269	4,827	7,586
	22,996,328	17,643,812	5,353,972	5,283,113

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 5 OTHER INCOME AND GAINS

	2018 RMB'000	2017 RMB'000
Rental income	11,198	6,427
Dividend income from listed equity securities	4,347	1,930
Interest income from related parties	38,971	35,302
Interest income from time deposits	8,243	–
Other interest income	157,326	80,913
Fair value changes of other financial assets	1,305	–
Government grants ( <i>note</i> )	12,909	20,736
Sales of semi-product, raw materials and scrapped materials	18,759	11,544
Release of deferred income	13,488	19,946
Insurance claims received	6,552	4,736
Write-off of payables	553	7,751
Adjustment to consideration payable	–	18,563
Others	38,570	32,657
	<b>312,221</b>	240,505

*Note:* 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

	2018 RMB'000	2017 RMB'000
Interest on borrowings	213,452	342,365
Less: interest expense capitalized ( <i>note</i> )	(820)	(1,375)
	<b>212,632</b>	340,990

*Note:* The capitalization rate used to determine the amount of borrowing costs eligible for capitalization related to construction of production lines is 5.00% (2017: 5.00%) for the year ended 31 December 2018.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 7 PROFIT/(LOSS) BEFORE TAXATION

	Note	2018 RMB'000	2017 RMB'000
Director's emoluments	10	10,378	8,386
Other staff benefits	a	697,357	848,355
<b>Total employee benefits expenses</b>		<b>707,735</b>	856,741
Depreciation of property, plant and equipment		258,447	327,061
Amortization of lease prepayments		13,242	13,033
Amortization of mining rights		32,901	32,290
Amortization of other long-term assets		11,378	6,436
Auditors' remuneration		4,599	5,617
Operating lease charge-minimum lease payments	b	47,590	41,496
(Gain)/loss on disposal of property, plant and equipment		(7,206)	396
Loss on disposal of a joint venture		–	13
Impairment of trade receivables		1,528	–
Impairment of other receivables and prepayments		5,622	42
Impairment of prepayments for acquisition of property, plant and equipment		400	–
Write-down of inventories	c	12,235	32,825
Expenditure of separation and hand-over of water/power/gas supply and property management facilities to entities designated by local government	14	29,192	–
Impairment loss on property, plant and equipment	14	–	917,662
Reversal of loss on interests in associates		–	(30,754)
Impairment loss on available-for-sale investments	20	–	80,668
Foreign exchange (gain)/loss		(8,430)	2,891
Provision for onerous contract in relation to the disposal of interests in an associate		–	711,561

Notes:

- Contributions to retirement benefit scheme included in other staff benefits for the year ended 31 December 2018 amounted to RMB67,942,000 (2017: RMB68,089,000).
- Minimum lease payments under operating lease in respect of retail outlets, offices and warehouses.
- During the year ended 31 December 2018, write-down of inventories amounting to approximately RMB12,235,000 (2017: RMB32,825,000) is recorded in other expenses and losses.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

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

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

	2018 RMB'000	2017 RMB'000
<b>Provision for the year</b>		
PRC Enterprise Income Tax	(14,352)	(9,681)
<b>Over-provision in prior years</b>		
PRC Enterprise Income Tax	213	1,265
<b>Deferred tax</b>		
Origination and reversal of temporary differences	51,972	(2,522)
	<b>37,833</b>	<b>(10,938)</b>

- (i) Pursuant to the income tax rules and regulations of Bermuda and the British Virgin Islands ("BVI"), the Group is not subject to income tax in Bermuda and the BVI.
- (ii) The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.
- (iii) The provision for the PRC Enterprise Income Tax is based on the statutory rate of 25% on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC for the year, except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.
- (iv) A subsidiary of the Group incorporated in Macao SAR is exempted from income tax.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

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

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

	2018 RMB'000	2017 RMB'000
Profit/(loss) before taxation	451,132	(2,269,946)
Tax calculated at the applicable tax rate of 25%	(112,783)	567,487
Effect of different income tax rates	45,294	40,350
Tax effect of non-deductible expenses	(14,970)	(14,080)
Tax effect of non-taxable income	38	1,962
Tax effect of share of results of associates	4,417	(42,851)
Tax effect of share of results of joint ventures	7,079	3,434
Effect of prior year's tax losses and deductible temporary differences utilized during the year	118,004	14,182
Effect of tax losses and deductible temporary difference not recognized	(9,459)	(582,687)
Over-provision in prior years	213	1,265
Income tax credit/(expense) for the year	37,833	(10,938)

### 9 OTHER COMPREHENSIVE INCOME

The components of other comprehensive income do not have any significant tax effect for the years ended 31 December 2018 and 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 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:

2018

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000 (note a)	Retirement benefits scheme contribution RMB'000	Total RMB'000
<b>Chairman and Non-executive director</b>					
Mr. ZHANG Wei (note b) (resigned on 11 January 2019)	-	-	-	-	-
<b>Executive directors</b>					
Mr. QIN Hengde	-	1,827	4,228	50	6,105
Mr. Harry YANG	-	1,058	1,117	55	2,230
<b>Non-executive director</b>					
Mr. YANG Lin (note b)	-	-	-	-	-
<b>Independent non-executive directors</b>					
Mr. KO Ming Tung, Edward	412	-	-	-	412
Mr. LU Xin	379	-	-	-	379
Mr. TSE Hau Yin, Aloysius	465	-	-	-	465
	1,256	2,885	5,345	105	9,591
<b>Rental expenses for directors</b>					
Mr. QIN Hengde					300
Mr. Harry YANG					487
					10,378

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 10 DIRECTORS' EMOLUMENTS (CONTINUED)

2017

	Fees RMB'000	Salaries and other benefits RMB'000	Performance related incentive payments RMB'000 (note a)	Retirement benefits scheme contribution RMB'000	Total RMB'000
<b>Non-executive director (Chairman)</b>					
Mr. ZHANG Wei (note b)	-	-	-	-	-
<b>Executive directors</b>					
Mr. QIN Hengde	-	1,798	2,142	49	3,989
Mr. Harry YANG	-	1,301	961	51	2,313
<b>Non-executive directors</b>					
Mr. YANG Lin (note b)	-	-	-	-	-
Dr. Stephen Francis DOWDLE (note b) (resigned on 31 December 2017)	-	-	-	-	-
Ms. XIANG Dandan (note b) (resigned on 31 December 2017)	-	-	-	-	-
<b>Independent non-executive directors</b>					
Mr. KO Ming Tung, Edward	476	-	-	-	476
Mr. LU Xin	333	-	-	-	333
Mr. TSE Hau Yin, Aloysius	476	-	-	-	476
	1,285	3,099	3,103	100	7,587
<b>Rental expenses for directors</b>					
Mr. QIN Hengde					300
Mr. Harry YANG					499
					8,386

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 10 DIRECTORS' EMOLUMENTS (CONTINUED)

Notes:

- The performance related incentive payments were determined with reference to the operating results of the Group, individual performance and relevant comparable market statistics during the years ended 31 December 2018 and 2017.
- Mr. Zhang Wei and Mr. Yang Lin, being non-executive directors of the Company, had agreed to waive their director's fee for the year ended 31 December 2018. The amount waived by Mr. Zhang Wei and Mr. Yang Lin were HK\$385,000 each (equivalent to approximately RMB326,000).

Directors' fee waived by Mr. Zhang Wei, Mr. Yang Lin, Dr. Stephen Francis Dowdle and Ms. Xiang Dandan were HK\$385,000 each (equivalent to approximately RMB333,000) for the year ended 31 December 2017.

### 11 INDIVIDUALS WITH THE HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, two (2017: two) were directors of the Company, whose emoluments are disclosed in note 10. The emoluments of the remaining three (2017: three) individuals were as follows:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Salaries and other benefits	3,114	2,445
Performance related incentive payment	5,587	4,220
Retirement benefits scheme contribution	166	152
	<b>8,867</b>	<b>6,817</b>

The emoluments were within the following bands:

	2018 <i>Number of individuals</i>	2017 <i>Number of individuals</i>
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	–
	<b>3</b>	<b>3</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 12 DIVIDENDS

	2018 RMB'000	2017 RMB'000
Proposed final dividend of HK\$0.0224, equivalent to approximately RMB0.0196 per share (2017: Nil)	137,868	–

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

### 13 EARNINGS/(LOSS) PER SHARE

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

	2018 RMB'000	2017 RMB'000
<b>Earnings/(loss) attributable to owners of the Company</b>		
Earnings/(loss) for the purpose of basic/diluted loss per share	460,486	(2,207,504)

	2018 '000 shares	2017 '000 shares
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purpose of basic/diluted earnings/(loss) per share	7,024,456	7,024,456

The Group has no dilutive ordinary shares outstanding during the years ended 31 December 2018. Therefore, there was no difference between basic and diluted loss per share.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 14 PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Motor vehicles RMB'000	Furniture & fixtures RMB'000	Construction in progress RMB'000	Total RMB'000
<b>Cost</b>						
At 1 January 2017	2,304,827	3,120,494	61,191	317,291	376,566	6,180,369
Exchange realignment	(225)	–	(90)	(176)	–	(491)
Additions	34,299	14,779	9,795	9,718	179,093	247,684
Transfer from construction in progress	194,995	29,709	154	3,124	(227,982)	–
Disposals	(15,987)	(33,305)	(8,058)	(10,289)	–	(67,639)
<b>At 31 December 2017</b>	<b>2,517,909</b>	<b>3,131,677</b>	<b>62,992</b>	<b>319,668</b>	<b>327,677</b>	<b>6,359,923</b>
<b>At 1 January 2018</b>						
At 1 January 2018	2,517,909	3,131,677	62,992	319,668	327,677	6,359,923
Exchange realignment	15	–	75	66	–	156
Additions	31,010	13,822	9,514	10,914	334,796	400,056
Transfer from construction in progress	30,621	105,253	154	6,203	(142,231)	–
Disposals	(1,488)	(18,555)	(12,006)	(2,696)	(1,818)	(36,563)
Others (note)	(12,464)	(1,378)	(156)	(43)	(89,980)	(104,021)
<b>At 31 December 2018</b>	<b>2,565,603</b>	<b>3,230,819</b>	<b>60,573</b>	<b>334,112</b>	<b>428,444</b>	<b>6,619,551</b>
<b>Accumulated depreciation and impairment</b>						
At 1 January 2017	(878,195)	(1,665,777)	(33,678)	(174,951)	–	(2,752,601)
Exchange realignment	225	–	89	169	–	483
Charge for the year	(102,177)	(198,462)	(7,037)	(19,385)	–	(327,061)
Impairment loss	(270,995)	(621,838)	(4,735)	(1,239)	(18,855)	(917,662)
Disposals	15,700	32,938	7,029	8,762	–	64,429
<b>At 31 December 2017</b>	<b>(1,235,442)</b>	<b>(2,453,139)</b>	<b>(38,332)</b>	<b>(186,644)</b>	<b>(18,855)</b>	<b>(3,932,412)</b>
<b>At 1 January 2018</b>						
At 1 January 2018	(1,235,442)	(2,453,139)	(38,332)	(186,644)	(18,855)	(3,932,412)
Exchange realignment	–	–	(57)	(48)	–	(105)
Charge for the year	(87,519)	(143,504)	(6,368)	(21,056)	–	(258,447)
Disposals	463	17,479	11,395	2,466	–	31,803
Others (note)	12,464	1,378	156	43	–	14,041
<b>At 31 December 2018</b>	<b>(1,310,034)</b>	<b>(2,577,786)</b>	<b>(33,206)</b>	<b>(205,239)</b>	<b>(18,855)</b>	<b>(4,145,120)</b>
<b>Net book value</b>						
At 31 December 2018	<b>1,255,569</b>	<b>653,033</b>	<b>27,367</b>	<b>128,873</b>	<b>409,589</b>	<b>2,474,431</b>
At 31 December 2017	1,282,467	678,538	24,660	133,024	308,822	2,427,511

Certain property, plant and equipment were pledged to secure banking facilities granted to the Group as disclosed in note 31(a).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 14 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

*Note:* In accordance with the “Notice of the State-owned Assets Supervision and Administration Commission of the State Council and the Ministry of Finance of the PRC on the Instructions for the separation and hand-over of water/power/gas supply and property management facilities in the Residential Area of Employees of the State-owned Enterprises” forwarded by the General Office of the State Council of the PRC (Guo Ban Fa [2016] No. 45) and other relevant authorities’ documents, the Group is required to hand-over of the water/power/gas supply and property management facilities to entities designated by local government. In 2018, the Group completed the hand-over of the related property, plant and equipment to entities designated by local government, which resulted in a loss of RMB29,192,000 included in “other expenses and losses” in the consolidated statement of profit or loss and other comprehensive income.

### 15 LEASE PREPAYMENTS

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

	2018 RMB'000	2017 RMB'000
<b>Cost</b>		
At 1 January	676,091	676,091
Additions	219	–
At 31 December	676,310	676,091
<b>Accumulated amortization</b>		
At 1 January	(174,578)	(161,545)
Charge for the year	(13,242)	(13,033)
At 31 December	(187,820)	(174,578)
<b>Net book value</b>		
At 31 December	488,490	501,513
<b>Analysis for reporting purposes as</b>		
Current assets	13,854	13,810
Non-current assets	474,636	487,703
	488,490	501,513

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 16 MINING RIGHTS

	2018 RMB'000	2017 RMB'000
<b>Cost</b>		
At 1 January and 31 December	768,140	768,140
<b>Accumulated amortization</b>		
At 1 January	(189,063)	(156,773)
Charge for the year	(32,901)	(32,290)
At 31 December	(221,964)	(189,063)
<b>Net book value</b>		
At 31 December	546,176	579,077

### 17 GOODWILL

	2018 RMB'000	2017 RMB'000
<b>Cost</b>		
At 1 January	829,075	849,966
Exchange adjustments	14,367	(20,891)
<b>Carrying amount</b>		
At 31 December	843,442	829,075

(Expressed in RMB unless otherwise indicated)

**17 GOODWILL (CONTINUED)****Impairment testing on goodwill**

For the purposes of impairment testing, goodwill has been allocated to the CGUs of the related segments as follows:

	<b>As at 31 December</b>	
	<b>2018</b>	2017
	<b>RMB'000</b>	<i>RMB'000</i>
Basic Fertilizers	<b>189,045</b>	179,530
Distribution	<b>88,962</b>	85,691
Production		
– Sinochem Yunlong Co., Ltd. (“Sinochem Yunlong”)	<b>531,074</b>	531,074
– Others	<b>34,361</b>	32,780
	<b>843,442</b>	829,075

The recoverable amounts of these CGUs have been determined on the basis of value in use calculations by estimating the future cash flows expected from these CGUs. The key assumptions for the value in use calculations are those regarding the discount rates, including estimated selling prices and selling quantities used in the cash flow forecasts. Cash flow forecasts 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 2019 approved by the directors of the Company. The growth rates for the first 3 years from 2019 are based on the relevant CGUs past performance and management’s expectation for the market development and for the following years are based on steady growth rates.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 17 GOODWILL (CONTINUED)

#### Impairment testing on goodwill (continued)

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

	Basic Fertilizers and Distribution 2018	Production 2018
Pre-tax discount rate	8.9%	12.8%
Steady growth rate for the following years	3.0%	4.9%

	Basic Fertilizers and Distribution 2017	Production 2017
Pre-tax discount rate	8.8%	13.0%-14.3%
Steady growth rate for the following years	3.7%	5.0%

The value in use calculated is higher than the carrying amount for each CGU, accordingly, no impairment of goodwill was recognized for the year ended 31 December 2018.

### 18 INTERESTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Unlisted shares, at cost	386,604	391,429
Share of profits, net of dividends	129,780	118,483
	516,384	509,912

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 18 INTERESTS IN ASSOCIATES (CONTINUED)

As at 31 December 2018, the particulars of principal associates of the Group are as follows:

Name of entities	Form of business structure business	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activity
				2018	2017	
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	RMB20,000,000	24%	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	RMB20,000,000	24%	30%	Production and sales of coal
Qingdao Ganghua Logistics Co., Ltd. 青島港華物流有限公司	Incorporated	The PRC	RMB10,000,000	25%	25%	Provision of logistics services
Yangmei Pingyuan Chemical Co., Ltd. ("Yangmei Pingyuan") 陽煤平原化工有限公司	Incorporated	The PRC	RMB560,296,500	36.75%	36.75%	Production and sales of fertilizers

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

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	516,384	509,912
Aggregate amounts of the Group's share of those associates'		
Profit/(loss) from continuing operation	17,669	(171,404)
Total comprehensive income	17,669	(171,404)



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 19 INTERESTS IN JOINT VENTURES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Unlisted shares, at cost	425,330	425,330
Share of profits, net of dividends	(11,341)	(39,656)
	<b>413,989</b>	385,674

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 entities	Form of business structure	Country of incorporation and principal place of operation	Nominal value of issued capital/ registered capital	Proportion of nominal value of issued capital/ registered capital and of voting power held by the Group		Principal activities
				2018	2017	
Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. ("Three Circles-Sinochem") 雲南三環中化化肥有限公司	Incorporated	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	Incorporated	The PRC	RMB245,650,000	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)	Incorporated	The PRC	RMB100,000,000	51%	51%	Sales of pesticides

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 19 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:

	2018 RMB'000	2017 RMB'000
Aggregate carrying amount of individually immaterial joint ventures in the consolidated financial statements	413,989	385,674
Aggregate amounts of the Group's share of those joint ventures'		
Profit from continuing operation	28,315	13,736
Total comprehensive income	28,315	13,736

### 20 OTHER EQUITY SECURITIES AND AVAILABLE-FOR-SALE INVESTMENTS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
<b>Equity securities designated at FVOCI (non-recycling)</b>			
– Listed equity securities	111,929	139,733	–
– Unlisted equity securities	386,566	386,566	–
	498,495	526,299	–
<b>Available-for-sale investments:</b>			
– Listed equity securities	–	–	139,733
– Unlisted equity securities	–	–	397,477
Less: impairment losses	–	–	(89,958)
	–	–	447,252

Available-for-sale investments were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of HKFRS 9 at 1 January 2018 (see note 2(c)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 21 OTHER LONG-TERM ASSETS

	2018 RMB'000	2017 RMB'000
<b>Cost</b>		
At 1 January	56,958	49,263
Additions	21,418	7,695
At 31 December	78,376	56,958
<b>Accumulated amortization</b>		
At 1 January	(43,648)	(37,212)
Charge for the year	(11,378)	(6,436)
At 31 December	(55,026)	(43,648)
<b>Net book value</b>		
At 31 December	23,350	13,310

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.

### 22 INVENTORIES

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Fertilizer merchandise and finished goods	5,075,757	4,874,152
Raw materials	383,419	491,120
Work in progress	52,949	23,918
Consumables	42,342	43,948
	5,554,467	5,433,138

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 22 INVENTORIES (CONTINUED)

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Carrying amount of inventories sold	21,083,401	16,272,189
Write down of inventories	12,235	32,825
	<b>21,095,636</b>	16,305,014

### 23 TRADE AND BILLS RECEIVABLES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade receivables	46,743	46,565
Less: allowance for doubtful debts (note (b))	(2,674)	(1,212)
	<b>44,069</b>	45,353
Bills receivables	490,648	190,638
Total trade and bills receivables, net of loss allowance	<b>534,717</b>	235,991

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 23 TRADE AND BILLS RECEIVABLES (CONTINUED)

#### (a) Aging analysis of trade and bills receivables

The Group allows a credit period of 0-90 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	
	2018 RMB'000	2017 RMB'000
Within 3 months	338,987	158,989
More than 3 months but within 6 months	129,899	72,608
More than 6 months but within 12 months	63,581	158
Over 12 months	2,250	4,236
	534,717	235,991

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.

#### (b) Impairment of trade receivables

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Balance at 1 January	1,212	7,937
Impairment recognized	1,528	–
Write-off of uncollectible receivables	(66)	(6,725)
Balance at 31 December	2,674	1,212

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 24 OTHER RECEIVABLES AND PREPAYMENTS

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Other receivables	185,614	170,623
Prepayments	1,845,393	1,375,104
Deductible input VAT	358,107	383,102
Less: allowance for doubtful debts ( <i>note</i> )	(51,367)	(45,773)
Other receivables and prepayments	2,337,747	1,883,056

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Balance at 1 January	45,773	45,731
Impairment recognized	5,654	42
Reversal of impairment	(32)	–
Write-off of uncollectible receivables	(28)	–
Balance at 31 December	51,367	45,773

### 25 LOANS TO RELATED PARTIES

	Note	As at 31 December	
		2018 RMB'000	2017 RMB'000
Sinochem Agriculture Holdings Limited (“Sinochem Agriculture”)	(i)	800,000	–
Sinochem Corporation	(ii)	500,000	–
Yangmei Pingyuan	(iii)	670,000	670,000
Balance at 31 December		1,970,000	670,000



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 25 LOANS TO RELATED PARTIES (CONTINUED)

Notes:

- (i) During the year ended 31 December 2018, the Group lent entrusted loans to Sinochem Agriculture, a subsidiary of Sinochem Group, through Sinochem Finance Co., Ltd. ("Sinochem Finance") of RMB800,000,000 with a term from 20 December 2018 to 15 December 2019. The entrusted loans are guaranteed by Sinochem Corporation and bear fixed interest rate of 4.385% per annum.
- (ii) During the year ended 31 December 2018, the Group entered into an agreement with Sinochem Corporation, a subsidiary of Sinochem Group and the indirect controlling shareholder of the Group, and lent RMB500,000,000 to Sinochem Corporation with a term from 20 December 2018 to 14 December 2019. The loans are unsecured and bear fixed interest rate of 3.915% per annum.
- (iii) The entrusted loans lent to Yangmei Pingyuan through Sinochem Finance are unsecured, bear annual interest rate of 6.1% (2017: 5.5%) per annum and are repayable within one year.

### 26 OTHER FINANCIAL ASSETS

Other financial assets as at 31 December 2018 represent trust schemes issued by China Foreign Economy and Trade Trust Co., Ltd., a related party of the Group, mature in 1 year. The other financial assets are accounted as fair value through profit or loss.

### 27 CASH AND BANK BALANCES

(a) Cash and cash equivalents comprise:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Cash in hand	19	41
Cash at bank	589,111	286,775
Cash and cash equivalents in the consolidated statement	589,130	286,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

**27 CASH AND BANK BALANCES (CONTINUED)**

(b) Reconciliation of liabilities arising from financing activities

	Bank and other loans RMB'000 (Note 31)	Bonds RMB'000 (Note 31)	Interest payable RMB'000	Total RMB'000
<b>At 1 January 2018</b>	1,622,000	3,495,535	34,380	5,151,915
<b>Changes from financing cash flows:</b>				
Proceeds from bank and other loans	3,821,828	-	-	3,821,828
Repayment of bank and other loans	(5,386,328)	-	-	(5,386,328)
Payment for purchase of bonds	-	(470,000)	-	(470,000)
Interest paid	-	-	(218,298)	(218,298)
Total changes from financing cash flows	(1,564,500)	(470,000)	(218,298)	(2,252,798)
<b>Other changes:</b>				
Interest and changes on borrowings (note 6)	-	2,350	211,102	213,452
<b>At 31 December 2018</b>	57,500	3,027,885	27,184	3,112,569

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 27 CASH AND BANK BALANCES (CONTINUED)

#### (b) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other loans <i>RMB'000</i> ( <i>Note 31</i> )	Bonds <i>RMB'000</i> ( <i>Note 31</i> )	Short-term commercial paper <i>RMB'000</i>	Interest payable <i>RMB'000</i>	Total <i>RMB'000</i>
<b>At 1 January 2017</b>	540,000	3,493,185	2,000,000	82,507	6,115,692
<b>Changes from financing cash flows:</b>					
Proceeds from bank and other loans	19,834,227	-	-	-	19,834,227
Repayment of bank and other loans	(18,752,227)	-	-	-	(18,752,227)
Repayment of short-term commercial paper	-	-	(2,000,000)	-	(2,000,000)
Interest paid	-	-	-	(388,142)	(388,142)
Total changes from financing cash flows	1,082,000	-	(2,000,000)	(388,142)	(1,306,142)
<b>Other changes:</b>					
Interest and changes on borrowings ( <i>note 6</i> )	-	2,350	-	340,015	342,365
<b>At 31 December 2017</b>	1,622,000	3,495,535	-	34,380	5,151,915

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 28 TRADE AND BILLS PAYABLES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade payables	1,264,013	1,455,851
Bills payable	1,879,121	1,996,825
Trade and bills payables	3,143,134	3,452,676

As at 31 December 2018, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Within 3 months	2,347,968	1,832,456
More than 3 months but within 6 months	676,689	741,346
More than 6 months but within 12 months	31,184	825,112
Over 12 months	87,293	53,762
	3,143,134	3,452,676

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 29 CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
<b>Contract liabilities</b>			
Sales of goods			
– Amounts due to customer for advance received	2,937,545	3,481,748	–

Notes:

The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

Upon the adoption of HKFRS 15, these amounts were reclassified from “Other payables and receipt in advance” (note 30) to contract liabilities (see note 2(c)(ii)).

The Group normally requires majority of its customers to prepay a portion of the total consideration before delivery.

The entire contract liabilities balance at 1 January 2018 has been recognized as revenue during the year ended 31 December 2018. The balance at 31 December 2018 is expected to be recognized as revenue within one year.

### 30 OTHER PAYABLES AND RECEIPT IN ADVANCE

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Payroll payables	70,013	122,451	122,451
Others	724,122	691,970	691,970
Other payables	794,135	814,421	814,421
First instalment of consideration from the disposal of Qinghai Salt Lake Industry Co., Ltd. (“Qinghai Salt Lake”)	–	2,418,960	2,418,960
Receipt in advance (note)	–	–	3,481,748
Other payables and receipt in advance	794,135	3,233,381	6,715,129

Note: As a result of the adoption of HKFRS 15, amounts due to customers for advances received are included in contract liabilities (see note 2(c)(ii)).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 31 INTEREST-BEARING BORROWINGS

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
<b>Bank and other loans</b>		
Bank loans, secured (note 2)	–	5,000
Borrowings from Sinochem Group (note 38(b))	–	1,500,000
Borrowings from Sinochem Finance (note 38(b))	57,500	117,000
	57,500	1,622,000
<b>Bonds (note 1)</b>		
Principal amount	3,030,000	3,500,000
Less: unamortized transaction costs	(2,115)	(4,465)
	3,027,885	3,495,535
	3,085,385	5,117,535

Notes:

1 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 repayment of the bonds is guaranteed by Sinochem Group. The Group has bought back RMB430,000,000 of the bonds during 2018.

On 22 July 2016, a PRC subsidiary of the Group issued the first tranche of the medium-term notes of RMB1 billion, with a maturity of three years at a rate of 3.5% per annum. The Group has bought back RMB40,000,000 of the medium-term notes during 2018.

2 At 31 December 2018, certain property, plant and equipment with carrying values of approximately RMB2,658,000 (2017: RMB3,725,000) were pledged to secure banking facilities granted to the Group.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 31 INTEREST-BEARING BORROWINGS (CONTINUED)

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

All of the interest-bearing borrowings are fixed-rate borrowings carried at amortized cost and repayable as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Carrying amount repayable:		
Within 1 year	3,085,385	122,000
After 1 year but within 2 years	–	4,995,535
	3,085,385	5,117,535
Less: amounts due within 1 year shown under current liabilities	(3,085,385)	(122,000)
Amounts shown under non-current liabilities	–	4,995,535

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Fixed-rate borrowings	2.10%-5%	2.10%-5%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 31 INTEREST-BEARING BORROWINGS (CONTINUE)

#### (b) Unutilized banking facilities

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Expiring within 1 year	13,007,900	9,737,920
Expiring beyond 1 year	5,902,466	6,914,099
	<b>18,910,366</b>	16,652,019

### 32 DEFERRED TAX ASSETS/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	
	2018 RMB'000	2017 RMB'000
Deferred tax assets	57,322	17,702
Deferred tax liabilities	(215,322)	(207,912)
	<b>(158,000)</b>	(190,210)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

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

#### (a) Deferred tax assets and liabilities recognized:

Deferred tax assets and liabilities recognized and movements thereon during the current and prior years are as follows:

	Fair value adjustment on business combination RMB'000	Revaluation of other equity securities RMB'000	Unrealized profits in inventories RMB'000	Impairments RMB'000	Tax losses RMB'000	Accumulated depreciation difference RMB'000	Other RMB'000	Total RMB'000
At 1 January 2017	(220,648)	-	1,324	14,883	4,667	616	11,470	(187,688)
Credited/(charged) to profit or loss for the year	12,736	-	(1,087)	(3,759)	(2,889)	(616)	(6,907)	(2,522)
At 31 December 2017	(207,912)	-	237	11,124	1,778	-	4,563	(190,210)
Impact on initial application of HKFRS 9	-	(19,762)	-	-	-	-	-	(19,762)
At 1 January 2018	(207,912)	(19,762)	237	11,124	1,778	-	4,563	(209,972)
Credited/(charged) to profit or loss for the year	12,352	-	1,804	-	38,603	-	(787)	51,972
At 31 December 2018	(195,560)	(19,762)	2,041	11,124	40,381	-	3,776	(158,000)

By reference to financial budgets, the management of the Group believes that there will be sufficient future taxable profits or taxable temporary differences available in the future to utilise the deferred tax assets.

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

No deferred tax assets were recognized on the tax losses of approximately RMB7,810,827,000 as of 31 December 2018 (2017: RMB8,566,970,000) as the Group determines that the realization of the related tax benefit through future taxable profits is not probable. Unrecognized tax losses of RMB321,963,000 has expired during 2018. Included in the unrecognized tax losses are losses of RMB7,187,943,000 that will expire before 31 December 2023 (2017: RMB7,947,809,000 that will expire before 31 December 2022). Other losses may be carried forward indefinitely.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

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

#### (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 RMB301,730,000 at 31 December 2018 (2017: RMB241,460,000).

### 33 ISSUED EQUITY

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

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Issued shares of HK\$0.10 each and share premium At 1 January	8,267,384	8,267,384
Transfer from share premium to contributed surplus	(2,380,000)	–
At 31 December	5,887,384	8,267,384

The amount of issued equity of the Group as at 31 December 2018 and 2017 includes share capital and share premium in the consolidated statement of financial position.

Pursuant to a special resolution passed by the Company's shareholders at the special general meeting held on 20 December 2018, the share premium account of the Company was reduced by an amount of HK\$2,500,000,000 (equivalent to approximately RMB2,380,000,000) with the credit arising therefrom being credited to the contributed surplus account of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 33 ISSUED EQUITY (CONTINUED)

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

	2018			2017		
	Number of shares '000	Nominal value HK\$'000	Equivalent to RMB'000	Number of shares '000	Nominal value HK\$'000	Equivalent to RMB'000
<b>Authorized:</b>						
Ordinary shares of HK\$0.10 each	80,000,000	8,000,000		80,000,000	8,000,000	
<b>Ordinary shares of the Company, issued and fully paid:</b>						
At 1 January/ At 31 December	7,024,456	702,446	691,750	7,024,456	702,446	691,750
				<b>Number of shares</b>	<b>Nominal Value HK\$'000</b>	
<b>Preference shares</b>						
Authorized:						
Preference shares of HK\$1,000,000 each				316	316,000	

No preference shares are issued at 31 December 2018 and 2017.

### 34 CAPITAL RISK MANAGEMENT

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

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

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

## 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

### (a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents and bills receivable is limited because the counterparties are banks and financial institutions for which the Group considers to have low credit risk.

#### *Trade receivables*

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers.

Individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 90 days from the date of billing. Normally, the Group does not obtain collateral from customers.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (a) Credit risk (continued)

##### *Trade receivables (continued)*

The following table provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate %	Gross carrying amount RMB'000	Loss allowance RMB'000
Within 1 year	0.07%	41,848	(29)
More than 1 year but within 2 years	11.45%	221	(25)
More than 2 year but within 3 years	35.51%	3	(1)
More than 3 years	56.07%	4,671	(2,619)
		46,743	(2,674)

Expected loss rates are based on actual loss experience over the past 3 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

##### *Comparative information under HKAS 39*

Prior to 1 January 2018, an impairment loss was recognized only when there was objective evidence of impairment (see note 2(m)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of RMB1,212,000 was determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

	2017 RMB'000
Within 1 year	41,117
More than 1 year but within 2 years	174
More than 2 years	4,062
	45,353



## 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (a) Credit risk (continued)

#### *Comparative information under HKAS 39 (continued)*

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

### (b) 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 2018, the Group has available unutilized bank loan facilities of approximately RMB18,910,366,000 (2017: approximately RMB16,652,019,000). Details are set out in note 31(b).

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (b) Liquidity risk (continued)

The table includes both interest and principal cash flows based on the contractual undiscounted payments of the Group's financial liabilities at the end of the reporting period.

	2018			Carrying amount RMB'000
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	
Trade and bills payables	3,143,134	–	3,143,134	3,143,134
Other payables	794,135	–	794,135	794,135
Borrowings	3,203,117	–	3,203,117	3,085,385
	<b>7,140,386</b>	<b>–</b>	<b>7,140,386</b>	<b>7,022,654</b>

	2017			Carrying amount RMB'000
	Contractual undiscounted cash outflow			
	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	Total RMB'000	
Trade and bills payables	3,452,676	–	3,452,676	3,452,676
Other payables	814,421	–	814,421	814,421
Borrowings	345,565	5,179,558	5,525,123	5,117,535
	<b>4,612,662</b>	<b>5,179,558</b>	<b>9,792,220</b>	<b>9,384,632</b>

## 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 31 for details of the borrowings). Cash flow interest rate risk in relation to bank balances and pledged bank deposits is considered insignificant. Interest rate risk is managed by the management of the Group on an ongoing basis with the primary objective of limiting the extent to which interest expense could be affected by adverse movement in interest rates.

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

#### Sensitivity analysis

Since the Group has no variable-rate borrowings at the end of the reporting period, no sensitivity analysis about interest rates risk is prepared.

### (d) 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.

Monetary assets and monetary liabilities denominated in foreign currency including mainly cash and bank balances, other payables and borrowings that are subject to currency risk at the end of the reporting period are as follows, differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded:

	Liabilities		Assets	
	2018 RMB'000	2017 RMB'000	2018 RMB'000	2017 RMB'000
US\$	864,201	883,171	131,673	46,945

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

#### (d) Currency risk (continued)

##### Sensitivity analysis

The following table indicates the instantaneous change in the Group's loss 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.

	2018			2017		
	Increase/ (decrease) in foreign exchange rates	Effect on results of the year and retained profits RMB'000	Effect on other components of equity RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on results of the year and retained profits RMB'000	Effect on other components of equity RMB'000
US\$	10%	(73,253)	–	10%	(83,623)	–
	(10%)	73,253	–	(10%)	83,623	–

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' results of year 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 2017.

## 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

### (e) Equity price risk

The Group is exposed to equity price risk through its investments in equity securities. The Group's equity price risk in equity securities is mainly concentrated on equity instruments issued by companies operating in fertilizer industry sector listed on the Stock Exchange. 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.

If the prices of the respective listed equity instruments increased/(decreased) of 10% (2017: 10%), the Group's other comprehensive income after tax and other components of consolidated equity would have increased/decreased by approximately RMB11,193,000 (2017: RMB13,973,000) as a result of the increase/decrease in fair value of equity securities. The analysis is performed on the same basis for 2017.

### (f) Fair value

#### (i) *Financial assets and liabilities measured at fair value*

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(f) Fair value (continued)

(i) Financial assets and liabilities measured at fair value (continued)

	Fair value at 31 December 2018 RMB'000	Fair value measurements as at 31 December 2018 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Non-trading listed securities	111,929	111,929	–	–
Unlisted equity securities	386,566	–	–	386,566
Other financial assets	197,725	–	–	197,725
<b>Total</b>	<b>696,220</b>	111,929	–	584,291

	Fair value at 31 December 2017 RMB'000	Fair value measurements as at 31 December 2017 categorised into		
		Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000
Available-for-sale investments				
– Listed	139,733	139,733	–	–

During the years ended 31 December 2018 and 2017, 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.

**35 FINANCIAL RISK MANAGEMENT AND FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)****(f) Fair value (continued)****(i) Financial assets and liabilities measured at fair value (continued)**

Information about Level 3 fair value measurement

- The fair value of unlisted equity instruments is determined with reference to recent transaction price.
- Other financial assets represent the wealth management products, the fair value of which is measured using discounted cash flow method.

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	2018 RMB'000
Unlisted equity securities: At 1 January/At 31 December	386,566
	2018 RMB'000
Other financial assets	
At 1 January	–
Payment for purchase	9,886,420
Proceeds from sale	(9,690,000)
Changes in fair value recognised in profit or loss during the period	1,305
	197,725

**(ii) Fair values of financial assets and liabilities carried at other than fair value**

The directors of the Company consider there is no significant difference between the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the consolidated financial statements and their fair values.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 36 CONTINGENT LIABILITIES

At 31 December 2018 and 2017, the Group had no material contingent liabilities.

### 37 COMMITMENTS

#### (i) Capital commitment

	2018 RMB'000	2017 RMB'000
Contracted but not provided for		
– Property, plant and equipment	188,350	24,408
Authorized but not contracted for		
– Property, plant and equipment	1,211,375	1,770,125
	<b>1,399,725</b>	1,794,533

#### (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:

	2018 RMB'000	2017 RMB'000
Within 1 year	37,536	36,329
More than 1 year, but within 5 years	26,193	8,346
Over 5 years	–	1,304
	<b>63,729</b>	45,979

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.

### 38 RELATED PARTY TRANSACTIONS

The major related parties that had transactions with the Group during the year ended 31 December 2018 and 2017 were as follows:

**Ultimate holding company**

Sinochem Group  
(中國中化集團有限公司)

**Indirect holding company**

Sinochem Corporation  
(中國中化股份有限公司)

**Immediate holding company**

Sinochem Hong Kong (Group) Co., Ltd.  
(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.  
(北京凱晨置業有限公司)  
Sinochem Finance  
(中化集團財務有限責任公司)  
China Foreign Economy and Trade Trust Co., Ltd.  
(中國對外經濟貿易信託有限公司)  
Sinochem Agriculture  
(中化現代農業有限公司)

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

PCS Sales (USA) Inc.

**Associates**

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)  
Chongqing Fuling Zhongwang Agricultural Material Co., Ltd.  
(重慶市涪陵區眾旺農資有限公司)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 38 RELATED PARTY TRANSACTIONS (CONTINUED)

#### 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)

#### Associate of the ultimate holding company

Qinghai Salt Lake (associate of the Sinochem Group since 31 December 2017)  
(青海鹽湖工業股份有限公司)

- (a) In addition to the transaction disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year:

	2018 RMB'000	2017 RMB'000
<b>Sales of fertilizers to</b>		
Ultimate holding company	1,744	–
Joint ventures	264,056	262,301
Associates	41,942	6,349
An associate of the ultimate holding company	450,225	–
A fellow subsidiary	87,814	–
	<b>845,781</b>	268,650
<b>Purchases of fertilizers from</b>		
Ultimate holding company	200,690	119,596
Joint ventures	1,156,184	1,076,367
Associates	152,766	1,519,622
An associate of the ultimate holding company	1,213,783	–
A subsidiary of a shareholder with significant influence over the Company	548,999	321,122
	<b>3,272,422</b>	3,036,707

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

**38 RELATED PARTY TRANSACTIONS (CONTINUED)**

(a) In addition to the transaction disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year: (continued)

	2018 RMB'000	2017 RMB'000
<b>Import service fee payable to</b>		
Ultimate holding company	–	1,520
A fellow subsidiary	15,243	15,492
	<b>15,243</b>	17,012
<b>Office rental fee payable to</b>		
Immediate holding company	2,348	3,016
A fellow subsidiary	26,434	22,740
	<b>28,782</b>	25,756
<b>Loans to related parties</b>		
An associate	670,000	1,244,000
A fellow subsidiary	800,000	–
Indirect holding company	500,000	–
	<b>1,970,000</b>	1,244,000
<b>Repayments of loans to an associate</b>	<b>670,000</b>	1,244,000
<b>Interest income from related parties</b>		
An associate	37,539	35,302
A fellow subsidiary	1,103	–
Indirect holding company	329	–
	<b>38,971</b>	35,302

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 38 RELATED PARTY TRANSACTIONS (CONTINUED)

- (a) In addition to the transaction disclosed elsewhere in the financial statements, the Group entered into the following significant transactions with its ultimate holding company, Sinochem Group and other related parties during the year: (continued)

	2018 RMB'000	2017 RMB'000
<b>Loans from related parties</b>		
A fellow subsidiary	2,224,500	14,227,000
Ultimate holding company	–	1,500,000
	<b>2,224,500</b>	<b>15,727,000</b>
<b>Repayments of loans from related parties</b>		
A fellow subsidiary	2,284,000	14,650,000
Ultimate holding company	1,500,000	–
	<b>3,784,000</b>	<b>14,650,000</b>
<b>Interest expenses for loans from related parties</b>		
A fellow subsidiary	12,183	64,302
Ultimate holding company	13,832	13,208
	<b>26,015</b>	<b>77,510</b>
<b>Purchases of financial assets from</b>		
A fellow subsidiary	296,420	–
<b>Proceeds received from sales of financial assets to</b>		
A fellow subsidiary	100,000	–
<b>Deposit in a fellow subsidiary</b>	958,834	–
<b>Interests income of financial assets and deposits from</b>		
Fellow subsidiaries	24,817	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 38 RELATED PARTY TRANSACTIONS (CONTINUED)

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

	2018 RMB'000	2017 RMB'000
Trade receivables	8,617	–
Other receivables and advance prepayments	298,731	291,227
Trade and bills payables	494,522	1,771,482
Other payables and receipt in advance	48,112	2,468,652
Contract liabilities	2,811	–
Loans to related parties	1,970,000	670,000
Borrowings – due within one year (note)	57,500	117,000
Borrowings – due after one year	–	1,500,000
Other financial assets	197,725	–
Cash and cash equivalents	458,834	–
Time deposits	500,000	–

Note: 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.

(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:

	2018 RMB'000	2017 RMB'000
Salaries and other benefits	4,497	4,682
Performance related incentive payment	6,943	5,700
Retirement benefits scheme contribution	271	312
	11,711	10,694

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 38 RELATED PARTY TRANSACTIONS (CONTINUED)

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

The emoluments of senior executives were within the following bands:

	2018 <i>Number of individuals</i>	2017 <i>Number of individuals</i>
Nil to HK\$1,000,000	1	3
HK\$1,000,001 to HK\$1,500,000	1	2
HK\$1,500,001 to HK\$2,000,000	1	2
HK\$2,000,001 to HK\$2,500,000	1	1
HK\$3,500,001 to HK\$4,000,000	1	1
HK\$4,500,001 to HK\$5,000,000	1	–
	<b>6</b>	<b>9</b>

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

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

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

	As at 31 December	
	2018 <i>RMB’000</i>	2017 <i>RMB’000</i>
Trade and bills receivables	10,643	6,936
Other receivables and prepayments	718,143	406,780
Trade and bills payables	322,467	195,691
Other payables and receipt in advance	2,701	268,741
Contract liabilities	206,592	–



(Expressed in RMB unless otherwise indicated)

**38 RELATED PARTY TRANSACTIONS (CONTINUED)****(d) Transactions/balances with other state-controlled entities in the PRC (continued)**

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Sales of fertilizers	2,265,009	2,321,203
Purchases of fertilizers	4,938,617	4,566,934

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 39 PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries of the Group as at 31 December 2018 and 2017:

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2018	2017	
<b>Directly held:</b>					
China Fertilizer (Holdings) Co., Ltd.	British Virgin islands ("BVI")	10,002 shares, US\$1 each	100%	100%	Investment holding
Calorie Ltd.	Hong Kong	34,000 shares, HK\$1 each	100%	100%	Investment holding
<b>Indirectly held:</b>					
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	10,002 shares, US\$1 each	100%	100%	Investment holding
Sinochem Fertilizer (中化化肥有限公司) (note a)	The PRC	RMB 10,600,000,000	100%	100%	Fertilizer trading
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	15,000,000 shares, HK\$1 each	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	100,000 shares, MOP1 each	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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 39 PRINCIPAL SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Group as at 31 December 2018 and 2017: (continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2018	2017	
Sinochem Chongqing Fuling Chemicals 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)	The PRC	RMB500,000,000	100%	100%	Sales and manufacturing of feeds stuff
Sinochem Yantai Crop Nutrition Co., Ltd. (note b) (中化(煙台)作物營養有限公司)	The PRC	US\$1,493,000	100%	100%	Sales and manufacturing of fertilizers
Manzhouli Kaiming Fertilizer Co., Ltd. (note c) (滿洲里凱明化肥有限公司)	The PRC	RMB5,000,000	100%	100%	Fertilizer trading
Sinochem Changshan (note c) (中化吉林長山化工有限公司)	The PRC	RMB2,838,650,000	98.16%	94.78%	Sales and manufacturing of fertilizers
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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 39 PRINCIPAL SUBSIDIARIES (CONTINUED)

Particulars of the principal subsidiaries of the Group as at 31 December 2018 and 2017: (continued)

Name of subsidiaries	Place of incorporation/ registration	Nominal value of issued capital/ registered capital	Proportion ownership interest held by the Group		Principal activities
			2018	2017	
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
Sinochem Agriculture (Xinjiang) Biotech Co., Ltd. (note c) (中化農業(新疆)生物科技有限公司)	The PRC	RMB31,800,000	100%	–	Sales and manufacturing of fertilizers
Sinochem Agriculture(Linyi) R&D Centre Co., Ltd. (note c) (中化農業(臨沂)研發中心有限公司)	The PRC	RMB122,300,000	100%	–	Development of agriculture products

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.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 40 RETIREMENT BENEFITS SCHEME CONTRIBUTION

According to the relevant laws and regulations in the Mainland China, 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.

### 41 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Investments in subsidiaries	4,472,153	4,118,038
Amounts due from subsidiaries	1,934,358	6,115,465
Cash and bank balances	555	944
Other current assets	896,720	850,449
<b>TOTAL ASSETS</b>	<b>7,303,785</b>	11,084,896
Other current liabilities	5,110	4,666
<b>NET ASSETS</b>	<b>7,298,675</b>	11,080,230
<b>CAPITAL AND RESERVE</b>		
Issued equity (note (a))	5,887,384	8,267,384
Capital reserve (note (b))	–	7,416,535
Contributed surplus (note (d))	1,908,520	–
Exchange reserve (note (c))	(497,229)	(2,364,579)
Accumulated losses (note (d))	–	(2,239,110)
<b>TOTAL EQUITY</b>	<b>7,298,675</b>	11,080,230

Note:

#### (a) Issued equity

Pursuant to a special resolution passed by the Company's shareholders at the special general meeting held on 20 December 2018, the share premium account of the Company was reduced by an amount of HK\$2,500,000,000 (equivalent to approximately RMB2,380,000,000) with the credit arising therefrom being credited to the contributed surplus account of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(Expressed in RMB unless otherwise indicated)

### 41 INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note: (continued)

**(b) Capital reserve**

The capital reserve represents the excess value of shares over the nominal value of shares being issued in an exchange of shares in previous year. The capital reserve amounted to HK\$7,120,500,000 (equivalent to approximately RMB7,416,535,000) was transferred to contributed surplus during the year ended 31 December 2018.

**(c) Exchange reserve**

The increase in the exchange reserve of RMB1,867,350,000 was due to exchange differences on translation of the Company's financial statements.

**(d) Contributed surplus and accumulated losses**

The Company assigned RMB6,710,462,000 of contributed surplus to offset the accumulated losses during the year ended 31 December 2018.

### 42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 16, <i>Leases</i>	1 January 2019
HK(IFRIC) 23, <i>Uncertainty over income tax treatments</i>	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, <i>Long-term interest in associates and joint ventures</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

## 42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

### HKFRS 16, *Leases*

Currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

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 recognising 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.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognize the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 37(ii), at 31 December 2018 the Group’s future minimum lease payments under non-cancellable operating leases amount to RMB63,729,000, the majority of which is payable within 5 years after the reporting date.

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could not have a material impact on the Group’s financial statements from 2019 onwards.



## FIVE-YEAR FINANCIAL SUMMARY

	Five-year financial summary				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Revenue	22,996,328	17,643,812	14,959,092	26,121,488	28,311,086
Profit/(loss) before tax	451,132	(2,269,946)	(4,817,805)	350,149	272,122
Income tax	37,833	(10,938)	(4,621)	(147,602)	(136,700)
Profit/(loss) for the year	488,965	(2,280,884)	(4,822,426)	202,547	135,422
Profit/(loss) attributable to					
– Owners of the Company	460,486	(2,207,504)	(4,635,885)	220,855	229,339
– Non-controlling interests	28,479	(73,380)	(186,541)	(18,308)	(93,917)
	488,965	(2,280,884)	(4,822,426)	202,547	135,422

	At 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
Total assets	17,607,429	22,317,633	22,865,093	27,739,029	25,210,984
Total liabilities	(10,366,450)	(15,690,521)	(14,595,520)	(14,663,108)	(11,828,696)
Net assets	7,240,979	6,627,112	8,269,573	13,075,921	13,382,288

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