



中化化肥控股有限公司
SINO FERT HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability) Stock Code: 297

Nurturing China's Agriculture Sector



2019
INTERIM REPORT



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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 (*Chairman*)
Mr. KO Ming Tung, Edward
Mr. TSE Hau Yin, Aloysius
Mr. YANG Lin

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

Registered Office

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Principal Place of Business

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Company Website

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Share Listing

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

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CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, I hereby report the interim results of Sinofert Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the six months ended 30 June 2019 to all the shareholders.

In the first half of 2019, as China accelerated the readjustment of crop planting structure, the demand for fertilizer decreased and the price declined. Facing severe market challenges, the Group continued to promote the building of its strategic supplier system and the development of purchase channels during the reporting period. The Group implemented the DTS in-depth channel building strategy, strengthened collaboration among various operations and concentrated resources to promote the sales of differentiated products, with steady and safe operation of its production subsidiaries. The internationally advanced state-of-the-art Linyi R&D Center was put into operation in May 2019. With continuous efforts, the Group achieved progress exceeding the budget plan. For the six months ended 30 June 2019, the Group achieved total sales volume of 6.98 million tons,

up by 3.87% year on year; and sales income of RMB14,159 million, up by 8.61% year on year. Profit attributable to owners of the Company was RMB448 million, up by 42.22% year on year, and annualized ROE attributable to owners of the Company was 11.74%, up by 3.04 percentage points year on year. All performance indicators were in good condition, and various credit indicators were above rating standards for investment grade. Period expenses were lowered by 7.12% year on year, being reasonable and within the limit of the budget plan. Assets-liability structure remained sound, and solvency was strong. Overall inventory level and turnover rate were on par with the same period of last year. In addition, the Group consolidated its operation capabilities, and maintained solid strategic cooperation with international suppliers.

In the second half of 2019, the Chinese agricultural sector would be likely affected by the ongoing trade frictions between China and the U.S., and the Chinese fertilizer industry would continue to be under severe pressure. However, the Group will continue to renovate its business model and achieve its business transformation by grasping the opportunities created in the



changes and reform in China's agricultural sector, such as the implementation of the Rural Revitalization Strategy, the supply-side structural reform in the agricultural sector, as well as greater opening-up in the agricultural sector in a positive and proper manner by the government.

In the second half of 2019, the Group will focus on business transformation and upgrading, be fully committed to promoting modern agriculture, optimize its business structure and renovate its business model so as to achieve stable and sustainable growth. Major work will be done to further strengthen the cooperation with major suppliers both at home and abroad, improve the efficiency of strategic procurement and profitability, enhance synergic effect of various operations among the subsidiaries, set up an e-commerce trading and service platform, integrate the supply chain to better serve the customers with big data and financing services, firmly implement the DTS in-depth channel building strategy and optimize the portfolio of differentiated products. Meanwhile, the Group will ensure the construction and commencement of operation of the Yanjiang Industrial Park of Sinochem Agricultural Ecological Technology (Hubei) Co., Ltd. (formerly Hubei Sinochem Orient Fertilizer Co., Ltd.) in Jiangling County

and promote the "move for better and stronger" relocating work of Sinochem Chongqing Fuling Chemicals Co., Ltd. In addition, the Group will bring in place a market-oriented R&D system aiming at achieving innovations in fertigation, core masterbatch and high-end compound fertilizer production process. At the same time, the Group will maintain safe production by enhancing risk control and safety management.

Last but not the least, on behalf of the Board of Directors, I'd like to extend our deep appreciations and sincere thanks to the shareholders of the Company and customers of the Group. We hope to have your continuous attention and support in the future. We expect the management and members and staff of the Company will bear in mind the vision of "In Science We Trust, Combine Action with Knowledge", and work ever harder to continuously make contribution to the development of the Group.

Yang Lin
Non-executive Director

Hong Kong, 27 August 2019



Management Review and Prospect

Business Environment

In the first half of 2019, as the global economic activities continued to slow down and trade tensions among major economies further escalated, the implication of the period of strategic opportunity for China's development changed significantly. The domestic economy performed within a reasonable range and remained generally stable, with progress being made in certain areas. However, the international situation was still complicated and difficult, and the economy was confronted with downward pressure. It was pointed out on the Central Economic Work Conference that the Rural Revitalization Strategy would be solidly implemented in 2019, and new types of business entities such as family farms and farmers' cooperatives should be cultivated and introduced into the modern agricultural development structure. 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 the first half of 2019, the growth of global fertilizer demand slowed down. With the adjustment of tariff policies and increasing import and export of fertilizers, the domestic and overseas markets had been more closely linked. As the domestic supervision on safety and environmental protection continued to be strengthened and

the readjustment of crop planting structure was accelerated, the demand for fertilizer decreased and the price declined. The enterprises that failed to comply with standards of environmental protection or had no advantage in scale accelerated to retreat from this industry, and the processing cost at the production end continued to rise. Under both the upstream and downstream pressure, the gross profit level of the industry declined, and the development situation changed tremendously. The fertilizer industry was in the stage of integration. With the backward production capacity being phased out, many enterprises accelerated transformation and upgrading one after another and expanded their presence in upstream and downstream industrial chains to provide farmers with new comprehensive agricultural services.

Against this backdrop, facing the difficult market situation, in order to ensure its leading position in the industry, the Group, under the leadership of the Board of Directors, seized the opportunity of the agricultural supply-side reform and the fast-changing trend of agricultural structure by centering on the Rural Revitalization Strategy. Under the principle of "In Science We Trust" and by focusing on business transformation and upgrading, the Group took root in modern agriculture, optimized its business structure, innovated its business model and was committed to becoming China's leading technology-based marketing and service provider of crop nutrition.



Management Review and Prospect

Financial Highlights

For the six months ended 30 June 2019, the Group's revenue reached RMB14,159 million, up by 8.61% over the corresponding period in 2018. Profit attributable to owners of the Company amounted to RMB448 million, up by 42.22% over the corresponding period in 2018, which represented a significant improvement in business performance.

Research and Development

The Group's internationally advanced state-of-the-art Linyi R&D Center was completed and put into operation in May 2019. Based on the new hardware facilities, the level and the efficiency of research and development were significantly improved. In the first half of 2019, the Group independently developed four sets of composite bacteria agent (transformed) and pentagenic bacteria (reserved) with remarkable application effect. Research on upgrading coupling technology of fungus and fertilizer further improved viable survival rate. Two series of ameliorant designed for the two major types of obstructive soils, namely saline-alkali soil and acidified soil, were tested on seven crops in eight provinces and cities, with outstanding effect in the field. Meanwhile, the Group continued to conduct research on deep side fertilization for rice and upgrading of core masterbatch, and carried out field trials and demonstrations in the main producing areas of the three main staple food. New products and new technologies of crop nutrition achieved 355,000 tons of products in the first half of 2019, which represented a significantly higher commercialization rate compared with the same period in 2018.

Manufacturing

In the first half of 2019, the Group's subsidiaries, associates and joint ventures continued to strengthen the fundamental work in management, and realized "safe, stable, long-term, full and high-quality" operation. By regional synergy, cost control and quality improvement, they achieved cost reduction and efficiency improvement. In addition, they implemented product upgrading and technological advancement to enhance the product competitiveness as well as the efficiency of production and operation, which propelled sustainable development of the Group.

Sinochem Chongqing Fuling Chemicals Co., Ltd. ("Sinochem Fuling"), a subsidiary of the Group, put health, safety and environment as well as stability of employees in the first place. While steadily advancing the early-stage work of overall relocating, Sinochem Fuling produced 450,300 tons of phosphate, compound fertilizers and other products. Besides, Sinochem Fuling carried out in-depth cooperation with the Basic Fertilizers Division in off-take, grasped the opportunities of export market and the peak season of spring planting, continuously strengthened control on expenses, consolidated fundamental management, and maintained stable profitability.

Driven by the concept of sustainable development, Sinochem Jilin Changshan Chemical Co., Ltd. (“Sinochem Changshan”), a subsidiary of the Group, focused on establishing a corporate economic growth model and cultivating core competitiveness. In the first half of 2019, by specific maintenance of equipment, improvement of the fundamental management level as well as regular inspection and maintenance of major production procedures in each workshop, Sinochem Changshan maintained the equipment in stable operation and produced 99,900 tons of synthetic ammonia and 42,600 tons of urea. Due to the development of the synthetic ammonia market, all the finished products could be sold out, for which Sinochem Changshan improved the gross profit level significantly compared with the same period in 2018 and returned to profitability.

In the first half of 2019, Sinochem Yunlong Co., Ltd. (“Sinochem Yunlong”), a subsidiary of the Group, optimized phosphate mining schemes and mined 354,600 tons of phosphate rock. In respect of mine construction, the construction of the main body of capacity continuing project of 600,000 tons per annum for Mozushao production was completed. By normative establishment of the six systems for safety and danger evasion, improvement of mechanization and automation level as well as implementation of ecological environmental protection and restoration, Sinochem Yunlong constructed a preliminary green phosphorus mine, which ensured the sustainable use of resources, continuously expanded the advantages in phosphate resources and further supported the sustainable development of the Group’s phosphate fertilizers and phosphorus chemical industry.

Sinochem Yunlong overcame unfavorable factors such as the China-US trade friction and African swine fever, adhered to the principle of “boosting

production, reducing costs, promoting sales and improving efficiency”, and focusing on production and management, kept the manufacturing equipment in stable and efficient operation with zero safety and environmental accident by taking measures such as strict working discipline, technological transformation, continuous production process optimization as well as full promotion of strategies and project construction. In the first half of 2019, the output of monocalcium/dicalcium phosphate (MCP/DCP) amounted to 170,700 tons, and the sales volume amounted to 177,800 tons, both of which increased by approximately 7.50% over the corresponding period in 2018, and therefore, the business performance was significantly improved.

Basic Fertilizers Operations

The basic fertilizers operations continued to improve. On the supply side, strategic procurement continued to be strengthened and the ability to obtain stable supply of high-quality products was constantly enhanced. On the customer side, the Group focused on developing new customers and exploring the potential of existing customers, increased direct sales to industrial customers, and continuously increased its sales volume and market share. Moreover, the Group improved scientific decision-making mechanism, put forward competitive marketing initiatives, strengthened promotion of differentiated products and enhanced the brand influence. In the context of upgrading of the agricultural inputs industry channels, the Group actively developed the e-commerce platform, Fertex, and completed the design and launch of logistics, data, process, finance and transaction modules. The number of registered users exceeded expectations.

Management Review and Prospect

Potash Operations: In the first half of 2019, sales volume of potash fertilizers was 1.17 million tons, down by 27% over the corresponding period in 2018. Since the domestic supply of potash fertilizers was sufficient, the downstream customers determined the procurement volume according to their demand and reduced their inventory scale, for which the Group's sales volume decreased. The Group strengthened long-term strategic cooperation with international suppliers and continuously consolidated the partnership to ensure stable access to overseas high-quality products. The Group maintained close strategic cooperation with Qinghai Salt Lake Industry Co., Ltd. ("Qinghai Salt Lake") and enhanced its market position and influence based on cooperation of regional exclusive agency. Moreover, the Group and Qinghai Salt Lake explored innovative cooperation mode, reinforced information exchange and other aspects of synergy, and achieved mutual benefit and win-win results. Besides, the Group upgraded the core customer system for industrial potash to further enhance customer stickiness for in-depth cooperation. The Group continued to build its proprietary brands of potash for agriculture, and strengthened demand development and technical services to achieve a stable sales volume of potash for agriculture.

Nitrogen Operations: In the first half of 2019, sales volume of nitrogen fertilizers was 2.25 million tons, up by 15% over the corresponding period in 2018. The construction of strategic supplier system was steadily propelled, forming a win-win mechanism, which improved the ability to ensure supply security in the peak season and to control the risks in the off-season, and reduced the purchase costs by taking advantage of centralized procurement. In the selling process, the Group

increased the proportion of direct sales to industrial customers, and achieved stable profitability by strictly controlling the inventory scale and the turnover rate. Meanwhile, in response to the call for "fertilizer application reduction and efficiency improvement", the Group continued to expand the business scale of differentiated nitrogen fertilizers of its proprietary brands, formed a high-growth product portfolio comprised of three series and multiple specifications, and improved the gross profit level while continuously improving customer value.

Phosphate Operations: In the first half of 2019, sales volume of phosphate fertilizers was 1.42 million tons, up by 21% over the corresponding period in 2018. The Group continued to enrich and improve the strategic supplier maintenance measures to ensure the stable supply of high-quality products. By consolidating the customer base, enhancing the cooperation stickiness of industrial and agricultural customers as well as innovating the business model, the Group became a service provider linking upstream strategic suppliers and downstream core customers so as to provide comprehensive solutions centering on pain points in demand, and achieved steady growth in both sales volume and profit. In addition, the Group enhanced the promotion of new technology-based products, and the sales volume of Meilinmei, a new product in line with the trend of "fertilizer application reduction and efficiency improvement", increased rapidly. The Group further consolidated and strengthened its position as the leading distributor of phosphate fertilizers in China, which significantly enhanced its industry influence and customer value.

Distribution Operations

The Group firmly implemented the DTS in-depth channel building strategy and built diversified channel barriers for its distribution operations. In terms of distribution channel, by densifying the layout of terminal outlets, the Group developed the market where its presence was weak or even blank and promoted the upgrading plan of one model outlet for one county in order to achieve scale growth. In terms of technology-based marketing channel, the Group focused on core crops to break through the market, and strengthened the marketing of differentiated products and new fertilizers by providing planting technical solutions. In terms of straight service channel, the Group focused on large-scale growers, integrated industrial chain 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: In the first half of 2019, sales volume of compound fertilizers was 1.38 million tons, down by 4% over the corresponding period in 2018. The Group accelerated the channel layout in villages and towns, propelled its channels down closer to customers, enhanced the cooperation stickiness of large-scale growers, and expanded cooperation with large-scale enterprises both within the industry and across industries. The Group accelerated to readjust its product structure, with emphasis on the commercialization of R&D achievements and the design of product package, and improved the fertilizer utilization efficiency. The proportion

of differentiated products increased significantly year on year, and the sales volume of crop-oriented products achieved relatively high growth. In addition, with the synergy mechanism of production and marketing continuously improved, operational efficiency of manufacturing assets was significantly improved, and product cost management and quality control were better than expected, which effectively ensured the rapid and high-quality development of compound fertilizer business.

With the operational reform deepened, the Group established an efficient supply line through comprehensive business synergy and mutual empowerment. Through the collaboration among the Basic Fertilizers Division, the Distribution Division and the Manufacturing Division, the Group ensured the supply of high-quality products to the channels and subsidiary factories, and improved the efficiency of precise connection among procurement, production and marketing. With the optimization and upgrading of the production capacity structure, the supply ability of its own production capacity was greatly improved. Major production enterprises took measures such as raw material substitution and reducing energy consumption to achieve cost reduction and efficiency improvement as well as good synergy with marketing. The Group optimized the R&D system, adhered to the principle of “In Science We Trust”, accelerated the commercialization of R&D achievements, and developed capabilities of technical services.



Management Review and Prospect

The Group deeply understood the significance of the transformation and development of China's agricultural modernization, vigorously did research in green agricultural planting techniques, and actively promoted technological achievements such as deep side fertilization, fertigation as well as soil improvement. More than 400 technical service personnel worked on the field all year round and conducted activities such as technical training, soil testing and formula fertilizer as well as field guidance to help farmers grow good products and sell at good prices, so as to implement the original aspiration and mission of the Rural Revitalization Strategy.

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. 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 alert management and corresponding measures on material risks.

In the first half of 2019, in the context of increasing downward pressure on the domestic economy, the China-US trade friction and emerging credit risk, along with the strategy and business advancement, the Group implemented hierarchical management and reinforced entity responsibility among all levels, strengthened the standardization of fundamental work, and timely gave warnings of credit risk and market risk. The business units provided risk control training to all the personnel, combed and improved management systems, optimized business processes, and ensured that the business operations were carried out in a standard and orderly manner. The Headquarter revised performance assessment indicators for internal control and management, and guided the business units to enhance their entity awareness of internal control and risk responsibility. Both the Headquarter and the business units continued to strengthen daily inspection, further consolidated the fundamental work of internal control, and met the compliance requirements from domestic and overseas regulatory organizations. The above efforts provided reasonable protection for the Group to cope with the changing business environment, serve its strategic transformation and ensure the shareholders' interests, asset safety, business performance improvement and strategic implementation.

Corporate Social Responsibility

The Group actively brought into play its influence and leading status in the industry, and served the Chinese farmers wholeheartedly. With actively propelling its channels down closer to customers, the Group 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 more than 95% of China's arable land during the key period of spring planting and summer sowing season. Meanwhile, the Group provided comprehensive and differentiated tailored services for large-scale growers and new planting entities to guide farmers to scientific fertilization. The Group integrated high-quality resources and cooperated with international advanced enterprises of agricultural inputs to complement each other, provided farmers with comprehensive training service such as crop nutrition, crop protection and planting techniques, and gradually formed comprehensive crop planting solutions in different regions of the country, so as to help farmers reduce planting cost, improve yield quality and increase income.

In the first half of 2019, the Group focused on free soil testing service, field guidance, technical seminars 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 30 June 2019, more than 35,000 comprehensive technical service activities had been carried out, including over 20,000 field guidance as well as soil testing and formula fertilizer activities, over 3,000 anti-counterfeiting activities, over 3,000 training programs for farmers, over 1,500 demonstration seminars, and more than 1,200 pilot demonstration fields were built, and more than 35,000 copies of promotional materials

were distributed, which benefited more than 1,000 villages and towns and over 4 million farmers.

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, focusing on the joint demonstration and promotion of green high-efficiency products. Centering on the projects such as fertilizer application reduction and efficiency improvement, the use of bio-organic fertilizers in the production of fruits, vegetables and tea instead of chemical fertilizers as well as green production with high quality and efficiency and technology integration, Sinochem Fertilizer explored new mode of scientific fertilization through combining soil improvement with fertilizer application, properly improved soil environment, reduced the overall application of fertilizer, and actively fulfilled its social responsibility. Sinochem Fertilizer focused on combination of agricultural techniques and agricultural machinery, deep side fertilization project for rice as well as fertigation project, organized new business entities to jointly launch large-scale demonstration field tours in various regions, actively implemented the Rural Revitalization Strategy, deepened the supply-side structural reform in agriculture, vigorously promoted agricultural mechanized production, improved the utilization efficiency of fertilizer and water, and reduced pollution to agricultural environment. In addition, Sinochem Fertilizer worked with the agricultural scientific research institutions to improve and upgrade existing planting techniques, and focusing on rice-crayfish culture and use of bio-organic fertilizers instead of chemical fertilizers, coordinated with local agricultural technology extension centers to promote advanced application technology and production model and led farmers to new products and new techniques.



Management Review and Prospect

In the first half of 2019, the Group fulfilled its corporate social responsibility by carrying out precision poverty alleviation projects such as “Hope Plan” as well as poverty alleviation and disaster relief activities in Lujiang County of Anhui Province, Guyuan County of Hebei Province, Sanming City of Fujian Province and so on. The Group focused on establishing and developing the self-development capability of the poverty-stricken population, and combined poverty alleviation with morale boost and wisdom improvement. The Group provided specialized agricultural technical services to the poverty-stricken regions, and donated fertilizer, sporting goods and stationeries amounting to more than RMB164,800.

In the future, the Group will continue to focus on the requirement of modern agricultural development, actively implement the supply-side structural reform in agriculture, strive to serve farmers, center on the goal of fertilizer and pesticide application reduction, and deepen the cooperation with the Chinese government, research institutes and universities. In addition, the Group will put emphasis on key projects such as scientific fertilization, agricultural mechanized production, synergy of seeds, fertilizers and pesticides, fertigation, training on new types of farmers and social comprehensive agricultural services, integrate the internal and external resources, constantly make innovations in terms of service measures, and continue to provide high-quality, professional and high-efficiency comprehensive services for Chinese farmers.

The Group followed the environmental protection concept of “protecting and improving the production and operation environment of the Company and natural resources, preventing environmental pollution and ecological damage, and promoting the sustainable development of the Company”. The Group strictly implemented

environmental protection management measures, adhered to the basic national policy of protecting the environment, insisted on a people-oriented policy of environmental priority, prevention in advance and comprehensive management, actively implemented clean production, prevented the occurrence of new sources of pollution, continuously reduced waste emission through adopting advanced processes, technologies and equipment, and established a long-term environmental protection mechanism, so as to create harmony between energy and the environment. In the first half of 2019, the Group fully achieved its energy-saving and emission reduction goals.

Outlook

With the implementation of the Rural Revitalization Strategy, large-scale business entities are rapidly emerging, and the new format of operation in agriculture is accelerating to take shape. In the next few years, the Group will face the severe situation of slowdown in economic growth, accelerated process of cutting overcapacity in the industry and the coincidence of commodities troughs. The trend of scale, intensification, standardization and professionalization will be gradually accelerated in China’s agricultural sector. 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, and relying on the existing industrial base and technical capabilities, achieve innovation in the business model. The Group will open up upstream and downstream integrated operation, promote the strategy of modern agriculture platform, enhance the capability of comprehensive agricultural services, provide high-quality products and services to the farmers, and further create value for the shareholders.

Management Discussion and Analysis

For the six months ended 30 June 2019, sales volume of the Group was 6.98 million tons and revenue was RMB14,159 million, up by 3.87% and 8.61%, respectively, over the corresponding period in 2018.

For the six months ended 30 June 2019, gross profit of the Group was RMB1,119 million, up by 3.04% over the corresponding period in 2018. Profit attributable to owners of the company was RMB448 million, up by 42.22% over the corresponding period in 2018, which represented a significant improvement in business performance.

I. OPERATION SCALE

1. Sales volume

For the six months ended 30 June 2019, sales volume of the Group was 6.98 million tons, up by 3.87% over the corresponding period in 2018. In the first half of 2019, the Group adhered to the direction of strategic development, continued to promote professional and lean operations, expanded the scale of its strategic procurement, enhanced sales of differentiated products, and reinforced marketing service among downstream customers, for which the business continued to develop at a relatively high level. With the continuous readjustment of crop planting structure, the market demand for fertilizer had changed profoundly. The Group implemented the call for “fertilizer application reduction and efficiency improvement” through innovation, and with the product structure transformed to environmentally-friendly and high-efficiency fertilizers, formed an echelon of differentiated products including multifunctional fertilizer, crop-specific fertilizer, eco-friendly fertilizer and specialty fertilizer. In the first half of 2019, sales volume of differentiated products was 490,800 tons, up by 35.43% over the corresponding period in 2018.

2. Revenue

For the six months ended 30 June 2019, revenue of the Group was RMB14,159 million, increased by RMB1,122 million or 8.61% over the corresponding period in 2018. The increase rate of revenue was higher than that of sales volume (3.87%), which was mainly due to that the Group’s product structure was gradually transformed to differentiated products with high added value and the average price was raised. In the first half of 2019, revenue of differentiated products was RMB1,101 million, up by 45.06% over the corresponding period in 2018.

Management Discussion and Analysis

The breakdown of revenue by products of the Group for the six months ended 30 June 2019 and the corresponding period in 2018 is as follows:

Table 1:

| | For the six months ended 30 June | | | |
|-----------------------|----------------------------------|---|--------------------|---|
| | 2019 | | 2018 | |
| | Revenue RMB'000 | As percentage of total revenue | Revenue RMB'000 | As percentage of total revenue |
| Potash Fertilizers | 2,470,198 | 17.45% | 2,924,662 | 22.43% |
| Nitrogen Fertilizers | 3,693,040 | 26.08% | 2,899,981 | 22.24% |
| Compound Fertilizers | 3,431,463 | 24.24% | 3,377,005 | 25.90% |
| Phosphate Fertilizers | 3,225,556 | 22.78% | 2,666,663 | 20.46% |
| MCP/DCP | 462,518 | 3.27% | 434,334 | 3.33% |
| Others | 875,847 | 6.18% | 734,668 | 5.64% |
| Total | 14,158,622 | 100.00% | 13,037,313 | 100.00% |

3. Revenue and results by segment

The operating segments of the Group are divided into Basic Fertilizers Segment (sourcing and trading of straight fertilizers such as nitrogen, phosphate and potash), Distribution Segment (building of distribution channels, sourcing and selling of compound fertilizers and new types of fertilizers) and Production Segment (production and sales of fertilizers and MCP/DCP). During the reporting period, the Group has changed the performance assessment method for each reportable segment. Allocation of operating expenses, share of results of associates and joint ventures and also interest income and expenses has been changed based on the new performance assessment method.

The following is the analysis of the Group's revenue and results by operating segment for the six months ended 30 June 2019 and the corresponding period in 2018, in which certain comparative amounts in the segment information have been adjusted to conform with current period's presentation:

Table 2:

| | For the six months ended 30 June 2019 | | | | |
|----------------------------|---------------------------------------|-------------------------|-----------------------|------------------------|------------------|
| | Basic Fertilizers RMB'000 | Distribution RMB'000 | Production RMB'000 | Elimination RMB'000 | Total RMB'000 |
| External revenue | 9,685,020 | 3,343,978 | 1,129,624 | – | 14,158,622 |
| Internal revenue | 190,661 | 5,029 | 964,635 | (1,160,325) | – |
| Reportable segment revenue | 9,875,681 | 3,349,007 | 2,094,259 | (1,160,325) | 14,158,622 |
| Segment profit | 344,995 | 104,606 | 132,866 | – | 582,467 |

| | For the six months ended 30 June 2018 | | | | |
|----------------------------|---------------------------------------|-------------------------|-----------------------|------------------------|------------------|
| | Basic Fertilizers RMB'000 | Distribution RMB'000 | Production RMB'000 | Elimination RMB'000 | Total RMB'000 |
| External revenue | 8,641,465 | 3,307,340 | 1,088,508 | – | 13,037,313 |
| Internal revenue | 204,149 | 3,289 | 968,812 | (1,176,250) | – |
| Reportable segment revenue | 8,845,614 | 3,310,629 | 2,057,320 | (1,176,250) | 13,037,313 |
| Segment profit/(loss) | 312,230 | 98,684 | (2,049) | – | 408,865 |

Segment profit/(loss) represents the profit/(loss) earned by each segment without taking into account unallocated share of results of associates and joint ventures, unallocated expense/income and finance costs in relation to the unallocated interest-bearing borrowings and short-term commercial paper. This is the measure reported to the Group's chief operating decision-maker for the purposes of resource allocation and segment performance assessment.

Management Discussion and Analysis

For the six months ended 30 June 2019, the external revenue increased by RMB1,122 million over the corresponding period in 2018, which was mainly attributable to the increase both in the sales volume and selling price of fertilizer products year on year.

The Basic Fertilizers Segment continued to strengthen strategic partnership with core suppliers both at home and abroad, secured constant and steady supply of competitive products, and by promotion of new technology-based products, enhanced the downstream customer stickiness. Its revenue of the differentiated products was RMB315 million in the first half of 2019, up by 18.87% over the corresponding period in 2018. The Distribution Segment firmly implemented the DTS in-depth channel building strategy, built an operating system that covered procurement, production and marketing, accelerated readjustment of its product structure and elimination of inefficient fertilizers, and increased the proportion of differentiated product sales. Its revenue of the differentiated products was RMB786 million in the first half of 2019, up by 59.11% over the corresponding period in 2018. In the first half of 2019, major fertilizer production enterprises of the Production Segment realized “safe, stable, long-term, full and high-quality” operation, of which, Sinochem Jilin Changshan Chemical Co., Ltd. (“Sinochem Changshan”), a subsidiary of the Group, improved its gross profit level significantly compared with the same period in 2018.

The Group’s segment profit for the six months ended 30 June 2019 was RMB582 million. The Basic Fertilizers Segment made a profit of RMB345 million, up by 10.49% over the corresponding period in 2018. The Distribution Segment made a profit of RMB105 million, up by 6% over the corresponding period in 2018. The Production Segment made a profit of RMB133 million, which represented a significant improvement in performance compared with the corresponding period in 2018.

II. PROFIT

1. *Share of results of joint ventures and associates*

Share of results of joint ventures: For the six months ended 30 June 2019, the Group’s share of results of joint ventures was a profit of RMB17 million, increased by RMB6 million over the corresponding period in 2018. In the first half of 2019, the Group’s share of results of Yunnan Three Circles-Sinochem Fertilizer Co., Ltd. (“Three Circles-Sinochem”) was a profit of RMB11 million, up by 175% year on year. The Group’s share of results of Gansu Wengfu Chemical Co., Ltd. (“Gansu Wengfu”) was a profit of RMB6 million, which was relatively steady compared with the corresponding period in 2018.

Share of results of associates: For the six months ended 30 June 2019, the Group’s share of results of associates was a profit of RMB15 million, increased by RMB18 million compared with a loss of RMB3 million for the corresponding period in 2018, which was mainly due to that Sinochem Chongqing Fuling Chemical Co., Ltd. (“Sinochem Fuling”), a subsidiary of the Group, recognized the loss of RMB16 million due to the completion of an equity dispute in the first half of 2018. Excluding the impact of this event, the Group’s share of results of associates for the six months ended 30 June 2019 increased by RMB2 million year on year.

2. Income tax

For the six months ended 30 June 2019, income tax expense of the Group was RMB7 million, of which current income tax expense was RMB11 million and deferred income tax expense was RMB-4 million. In the first half of 2019, the taxable profit of subsidiaries of the Group increased year on year due to the improvement of business performance. Meanwhile, the deferred income tax liabilities derived from appreciation of property assessment continued to be amortized.

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

3. Profit attributable to owners of the Company and net profit margin

For the six months ended 30 June 2019, profit attributable to owners of the Company was RMB448 million, up by 42.22% compared with RMB315 million for the corresponding period in 2018, 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 innovation, and constantly deepened business transformation.

For the six months ended 30 June 2019, the net profit margin of the Group, calculated by dividing profit attributable to owners of the company by revenue, was 3.16%.

III. EXPENSES

For the six months ended 30 June 2019, the three categories of expenses amounted to RMB822 million, decreased by RMB63 million or 7.12% compared with RMB885 million for the corresponding period in 2018.

Selling and distribution expenses: For the six months ended 30 June 2019, selling and distribution expenses amounted to RMB429 million, decreased by RMB28 million or 6.13% compared with RMB457 million for the corresponding period in 2018. This was mainly attributable to the fact that the proportion of sales by customers' self-delivery increased in the first half of 2019, with the intermediate links reduced, resulting in a significant decrease in transportation and handling charges compared with the corresponding period in 2018.

Administrative expenses: For the six months ended 30 June 2019, administrative expenses amounted to RMB297 million, decreased by RMB9 million or 2.94% compared with RMB306 million for the corresponding period in 2018, within a reasonable range.

Finance costs: For the six months ended 30 June 2019, finance costs amounted to RMB96 million, decreased by RMB26 million or 21.31% compared with RMB122 million for the corresponding period in 2018. The decrease of finance costs was mainly attributable to the fact that the Group's average loan balance was reduced from RMB5,185 million to RMB3,813 million.

IV. OTHER INCOME AND GAINS

For the six months ended 30 June 2019, the Group's other income and gains amounted to RMB149 million, which was relatively steady compared with RMB147 million for the corresponding period in 2018. Other income and gains mainly consisted of interest income and earnings from sales of semi-finished products, raw materials and scrapped materials.

V. OTHER EXPENSES AND LOSSES

For the six months ended 30 June 2019, the Group's other expenses and losses amounted to RMB11 million, decreased by RMB21 million compared with RMB32 million for the corresponding period in 2018, which was mainly attributable to the fact that the Group recognized loss of fair value change of forward exchange contract that had not been settled and inventory impairment loss.

VI. INVENTORY

As at 30 June 2019, the inventory balance of the Group amounted to RMB5,310 million, decreased by RMB244 million or 4.39% compared with RMB5,554 million as at 31 December 2018. The Group continued to strengthen the coordination between procurement and marketing and controlled the sales rhythm, and thus the inventory scale declined. The inventory turnover days in the first half of 2019 was 75 days^(Note), the same as that in the corresponding period of last year.

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 180 days.

VII. TRADE AND BILLS RECEIVABLES

As at 30 June 2019, the balance of the Group's trade and bills receivables amounted to RMB679 million, increased by RMB144 million or 26.92% compared with RMB535 million as at 31 December 2018, which was mainly due to that the Group increased credit scales for customers with better credibility in order to promote sales, resulting in an increase of RMB190 million in the balance of trade receivables as at 30 June 2019 compared with that as at 31 December 2018. The Group actively prevented credit risk, and the turnover days of the Group's trade and bills receivables in the first half of 2019 was 8 days^(Note), faster than the 12 days^(Note) in the same period of 2018.

Note: Calculated on the basis of average trade and bills receivables balance as at the end of the reporting period divided by revenue, and multiplied by 180 days.

VIII. LOANS TO RELATED PARTIES

The Group's balance of loans to related parties was RMB1,638 million as at 30 June 2019. 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") to fulfill the shareholder's obligation to provide fund support to Yangmei Pingyuan, an entrusted loan of RMB775 million to Sinochem Agriculture Holdings Limited ("Sinochem Agriculture") through Sinochem Finance used for working capital such as staple food purchase and storage, and a fund of RMB193 million to Sinochem Agriculture used for equity investment in agricultural inputs and agricultural services in accordance with the fund use agreement that Sinochem Fertilizer had signed with Sinochem Corporation and Sinochem Agriculture.

IX. INTERESTS IN JOINT VENTURES

As at 30 June 2019, the balance of the Group's interests in joint ventures amounted to RMB372 million, decreased by RMB42 million or 10.14% compared with RMB414 million as at 31 December 2018, which was mainly due to that Hainan Zhongsheng Agricultural Technology Co., Ltd. ("Hainan Zhongsheng") had completed the liquidation procedure and made the shareholders' resolution on asset allocation, and the Group derecognized its investment in Hainan Zhongsheng, resulting in a decrease of RMB 59 million in the interests in joint ventures. In the first half of 2019, the Group's interests in joint ventures increased by RMB17 million due to the recognition of its share of results of Three Circles-Sinochem and Gansu Wengfu.

X. INTERESTS IN ASSOCIATES

As at 30 June 2019, the balance of the Group's interests in associates amounted to RMB531 million, increased by RMB15 million or 2.91% compared with RMB516 million as at 31 December 2018. The share of results of Yangmei Pingyuan was a profit of RMB12 million, and the share of results of Guizhou Xinxin Industrial Group Holdings Limited ("Xinxin Group") and Guizhou Xinxin Coal Chemical Co., Ltd. ("Xinxin Coal Chemical") totalled a profit of RMB3 million.

XI. OTHER EQUITY SECURITIES

As at 30 June 2019, the balance of the Group's other equity securities amounted to RMB488 million, decreased by RMB10 million or 2.01% compared with RMB498 million as at 31 December 2018, which was mainly due to that the stock price of China XLX Fertilizer Limited held by the Group fell as at 30 June 2019.

XII. INTEREST-BEARING LIABILITIES

As at 30 June 2019, the Group's interest-bearing liabilities amounted to RMB4,137 million, increased by RMB1,052 million or 34.10% compared with RMB3,085 million as at 31 December 2018, which was mainly due to that on 26 April 2019, Sinochem Fertilizer completed the issuance of the first tranche of the super & short-term commercial paper for the year of 2019 in an amount of RMB1 billion, with a term of 180 days and at a coupon rate of 3% per annum.

XIII. TRADE AND BILLS PAYABLES

As at 30 June 2019, the balance of the Group's trade and bills payables amounted to RMB3,404 million, increased by RMB261 million or 8.30% compared with RMB3,143 million as at 31 December 2018, which was mainly due to the increase in procurement cost, and at the same time, the Group made full use of the credit line and credit period provided by the suppliers.

XIV. OTHER FINANCIAL INDICATORS

Basic earnings per share for the six months ended 30 June 2019 was RMB0.0637 and return on equity (ROE) for the six months ended 30 June 2019 was 5.87%, both increased notably compared with those in the first half of 2018.

Table 3:

| | For the six months ended 30 June | |
|--|----------------------------------|--------|
| | 2019 | 2018 |
| Profitability | | |
| Earnings per share (RMB) <i>(Note 1)</i> | 0.0637 | 0.0448 |
| ROE <i>(Note 2)</i> | 5.87% | 4.35% |

Notes

- 1: Calculated based on profit attributable to owners of the Company for the reporting period divided by weighted average number of shares for the reporting period.
- 2: Calculated based on profit attributable to owners of the Company for the reporting period divided by the equity attributable to owners of the Company as at the end of the reporting period.

As at 30 June 2019, the Group's current ratio was 1.19, and the debt-to-equity ratio was 54.71%. The Group enjoyed relatively high banking facilities. Its credit rating by Fitch Ratings was maintained at A-, and it had smooth financing channels and diversified fund-raising methods. The Group maintained a stable financial structure through actively taking various operating measures while domestic funding conditions remained tight.

Table 4:

| | As at | As at |
|--------------------------------------|-----------------|---------------------|
| | 30 June 2019 | 31 December 2018 |
| Solvency | | |
| Current ratio <i>(Note 1)</i> | 1.19 | 1.17 |
| Debt-to-Equity ratio <i>(Note 2)</i> | 54.71% | 42.60% |

Notes

- 1: Calculated based on current assets divided by current liabilities as at the end of the reporting period.
- 2: Calculated based on interest-bearing debt divided by total equity as at the end of the reporting period.

Management Discussion and Analysis

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 30 June 2019, cash and cash equivalents of the Group amounted to RMB2,028 million, which was mainly denominated in RMB and US dollar. Time deposits due within one year of the Group was equivalent to RMB434 million.

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

Table 5:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|-------------------------------------|---|---|
| Short-term commercial paper | 1,000,000 | – |
| Bank and other loans | 108,000 | 57,500 |
| Bonds | | |
| Principal amount | 3,030,000 | 3,030,000 |
| Less: unamortized transaction costs | (690) | (2,115) |
| Total | 4,137,310 | 3,085,385 |

Table 6:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|-------------------------|---|---|
| Carrying amount payable | | |
| Within one year | 4,137,310 | 3,085,385 |

Table 7:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|--------------------------|---|---|
| Fixed-rate borrowings | 4,137,310 | 3,085,385 |
| Variable-rate borrowings | – | – |
| Total | 4,137,310 | 3,085,385 |

As at 30 June 2019, the Group had banking facilities equivalent to RMB25,620 million, including US\$1,388 million and RMB16,081 million, respectively. The unutilized banking facilities amounted to RMB22,858 million, including US\$1,236 million and RMB14,362 million, respectively.

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

XVI. OPERATION AND FINANCIAL RISKS

The Group's major operation risks include the following: from an international perspective, the development of the global economy has become significantly unbalanced, and uncertainties of the international trade environment have increased; from a domestic perspective, due to the supply-side structural reform and the policy of cutting overcapacity, market competition in the fertilizer industry has been intensified under the background of fertilizer application reduction and efficiency improvement, energy conservation and environmental protection as well as acceleration of industry integration. The Group actively took measures to cope with great changes in the domestic and international environment, and significantly improved its performance compared with the same period of 2018, which boosted its confidence. On one hand, the basic business maintained its business scale and profitability, and enhanced its market competitiveness; on the other hand, the Group continued to promote strategic transformation and resource integration, took technical services as a driving force for innovation, expanded the direction of agricultural modernization and enhanced the potential for business growth, which would reduce the negative impact of traditional operation risks on the 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.



Management Discussion and Analysis

Environmental and social risks

With the increasingly strict requirements on environmental protection management and more efforts in pollution control from the government, the enterprises were required to attach great importance to ecological civilization and environmental protection. The subsidiaries of the Group, engaged in resource development and fertilizer production, strictly complied with laws and regulations such as the Environmental Protection Law of the People's Republic of China, the Air Pollution Prevention and Control Law of the People's Republic of China as well as the Water Pollution Prevention and Control Law of the People's Republic of China. By adequate investigation and management on environmental risk sources, they implemented measures to prevent and control pollution of air, surface water, underground water and soil. In addition, they formulated emergency plans for sudden environmental pollution incidents, equipped themselves with necessary emergency disposal materials, prepared emergency drills, and launched emergency plans to limit production for heavy pollution weather. No environmental pollution accident occurred throughout the first half of 2019.

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 recognized and recorded in the consolidated statement of financial position on 30 June 2019. In the absence of management of credit risk, bad debt losses would occur as a result of uncollectible accounts and unavailable inventory after advance payment.

The Group had adequate management procedures and corresponding measures in respect of granting credit line and credit period, collection of overdue accounts and other related aspects. Through credit evaluation, transaction management and disposal of overdue accounts for credit customers/suppliers, the Group focused on their credit evaluation, operation quality and solvency, allocated more credit resources to strategic and high-quality core customers/suppliers, and transferred risks by proper utilization of credit insurance tools so as to ensure the timely follow-up of credit business. Meanwhile, the Group checked major trade loan recoveries at every settlement date every month to ensure adequate bad debt provision of unrecoverable accounts, for which the credit risk rarely occurred.

Management Discussion and Analysis

Liquidity risk

Liquidity risk may lead to inadequate capital to meet the demand of daily working capital and repayment of debt at maturity. 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. The management reasonably allocated short and long-term fund demands, and optimized capital structure to meet the demand of working capital and repayment of bonds at maturity.

XVII. CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no contingent liabilities.

XVIII. CAPITAL COMMITMENT

The capital commitment of the Group as at 30 June 2019 is as follows:

Table 8:

| | As at 30 June 2019 RMB'000 | As at 31 December 2018 RMB'000 |
|-----------------------------------|-------------------------------------|---|
| Contracted but not provided for | | |
| – Property, plant and equipment | 154,485 | 188,350 |
| Authorized but not contracted for | | |
| – Property, plant and equipment | 1,093,484 | 1,211,375 |
| Total | 1,247,969 | 1,399,725 |

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

XIX. MATERIAL INVESTMENTS

For the six months ended 30 June 2019, the Group had no material investments.

XX. REMUNERATION POLICY

The key components of the Group's remuneration package include basic salary, and if 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-caliber employees required for the development of the Group and to avoid offering excessive incentives.

The emoluments payable to Directors are determined with reference to the responsibilities, qualifications, experience and performance of the Directors. They include incentive bonus primarily 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 emolument.

The Group reviews its remuneration policy annually and, if necessary, engages professional consultants, to ensure the competitiveness of the remuneration policy which, in turn, would support the business growth of the Group. As at 30 June 2019, the Group had about 5,131 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 the first half of 2019, the Group provided around 624 person-times or around 6,664 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 trainings 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.



Chronicle of Events

January 2019

- ◆ Sinochem Fertilizer Co., Ltd., a subsidiary of the Group, communicated and negotiated with YARA, a key supplier, on the joint development and expansion of the northern Chinese market, and agreed the Group to be responsible for exclusive agency in certain northern regions such as Shandong province.

March 2019

- ◆ Sinochem Group Co., Ltd., the Group's ultimate holding company, and the Ministry of Agriculture and Rural Affairs jointly formulated "Implementation Plan for the Joint Promotion of the Quality Improvement of Farmers' Cooperatives by the General Office of Ministry of Agriculture and Rural Affairs and Sinochem Group Co., Ltd." to give full play to their respective advantages and provide services to farmers' cooperatives.
- ◆ Sinochem Chongqing Fuling Chemicals Co., Ltd., a subsidiary of the Group, was awarded the certificate and medal for City-level Environmentally-friendly Enterprise.
- ◆ The 100,000 ton water-soluble fertilizer plant of Sinochem Agriculture (Xinjiang) Biotech Co., Ltd., a subsidiary of the Group, was successfully put into operation, effectively ensuring the stable supply of water-soluble fertilizer products in Xinjiang and enhancing regional influence.

May 2019

- ◆ The internationally advanced state-of-the-art Linyi R&D Center of the Group was completed and put into operation, marking another contribution of the Group to the technology-driven transformation of China's agricultural sector by establishing three technological strengths in crop nutrition, crop breeding and applied technology.

June 2019

- ◆ The Group's Fertex project was commenced in January 2019, and the development of the information module was completed in June 2019. The Fertex e-commerce platform provides first-hand market information and updated industry news for upstream suppliers and downstream customers, marking the solid first step for the strategic transformation of the basic business.

Interim Review Report



Review report to the board of directors of Sinofert Holdings Limited

(Incorporated in Bermuda with limited liability)

Introduction

We have reviewed the interim financial report set out on pages 30 to 58 which comprises the consolidated statement of financial position of Sinofert Holdings Limited as of 30 June 2019 and the related consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, *Interim financial reporting*.

KPMG

Certified Public Accountants

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

27 August 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|---|------|--------------------------|---------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Note) |
| Revenue | 3 | 14,158,622 | 13,037,313 |
| Cost of sales | | (13,039,513) | (11,951,385) |
| Gross profit | | 1,119,109 | 1,085,928 |
| Other income and gains | | 149,469 | 146,738 |
| Selling and distribution expenses | | (429,202) | (456,534) |
| Administrative expenses | | (296,761) | (305,804) |
| Other expenses and losses | | (10,752) | (31,674) |
| Profit from operations | | 531,863 | 438,654 |
| Share of results of associates | | 15,115 | (3,012) |
| Share of results of joint ventures | | 16,974 | 10,899 |
| Profit on disposal of a joint venture | | 2,094 | – |
| Finance costs | 4(a) | (96,396) | (121,869) |
| Profit before taxation | 4 | 469,650 | 324,672 |
| Income tax | 5 | (7,436) | 353 |
| Profit for the period | | 462,214 | 325,025 |
| Profit for the period attributable to: | | | |
| – Owners of the Company | | 447,704 | 314,923 |
| – Non-controlling interests | | 14,510 | 10,102 |
| | | 462,214 | 325,025 |

Consolidated Statement of Profit or Loss and Other Comprehensive Income (continued)

For the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

| | Note | Six months ended 30 June | |
|--|------|--------------------------|---------------------------|
| | | 2019 RMB'000 | 2018 RMB'000 (Note) |
| Profit for the period | | 462,214 | 325,025 |
| Other comprehensive income | | | |
| <i>Item that will not be reclassified to profit or loss:</i> | | | |
| Equity investments at fair value through other comprehensive income – net movement in fair value reserve (non-recycling) | | (10,527) | (2,162) |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange differences on translation of financial statements of overseas subsidiaries | | 8,289 | 30,422 |
| Other comprehensive income for the period | | (2,238) | 28,260 |
| Total comprehensive income for the period | | 459,976 | 353,285 |
| Total comprehensive income attributable to: | | | |
| – Owners of the Company | | 445,466 | 343,183 |
| – Non-controlling interests | | 14,510 | 10,102 |
| | | 459,976 | 353,285 |
| Earnings per share | | | |
| Basic and diluted (RMB) | 6 | 0.0637 | 0.0448 |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 37 to 58 form part of this interim financial report. Details of dividends payable to owners of the Company are set out in note 14.

Consolidated Statement of Financial Position

At 30 June 2019 – unaudited
(Expressed in Renminbi)

| | Note | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 (Note) |
|---|------|-------------------------------|---|
| Non-current assets | | | |
| Property, plant and equipment | 7 | 2,577,951 | 2,474,431 |
| Lease prepayments | | – | 474,636 |
| Right-of-use assets | 2 | 521,082 | – |
| Mining rights | | 529,628 | 546,176 |
| Goodwill | 8 | 844,689 | 843,442 |
| Interests in associates | | 531,499 | 516,384 |
| Interests in joint ventures | | 372,092 | 413,989 |
| Other equity securities | | 487,968 | 498,495 |
| Prepayments for acquisition of property, plant and equipment | | 96,651 | 61,564 |
| Deferred tax assets | | 55,397 | 57,322 |
| Other long-term assets | | 25,316 | 23,350 |
| | | 6,042,273 | 5,909,789 |
| Current assets | | | |
| Inventories | | 5,309,850 | 5,554,467 |
| Trade and bills receivables | 9 | 678,644 | 534,717 |
| Other receivables and prepayments | | 1,539,011 | 2,337,747 |
| Loans to related parties | | 1,638,000 | 1,970,000 |
| Lease prepayments | | – | 13,854 |
| Other financial assets | | 117,430 | 197,725 |
| Time deposits | | 434,057 | 500,000 |
| Cash and cash equivalents | | 2,027,753 | 589,130 |
| | | 11,744,745 | 11,697,640 |
| Current liabilities | | | |
| Trade and bills payables | 10 | 3,404,483 | 3,143,134 |
| Contract liabilities | | 1,361,332 | 2,937,545 |
| Other payables | 11 | 906,919 | 794,135 |
| Interest-bearing borrowings | 12 | 3,137,310 | 3,085,385 |
| Short-term commercial paper | 13 | 1,000,000 | – |
| Lease liabilities | 2(a) | 21,361 | – |
| Tax liabilities | | 19,914 | 13,872 |
| | | 9,851,319 | 9,974,071 |
| Net current assets | | 1,893,426 | 1,723,569 |
| Total assets less current liabilities | | 7,935,699 | 7,633,358 |

Consolidated Statement of Financial Position (continued)

At 30 June 2019 – unaudited
(Expressed in Renminbi)

| | Note | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 (Note) |
|--|------|--|---|
| Non-current liabilities | | | |
| Lease liabilities | 2(a) | 5,193 | – |
| Deferred income | | 66,626 | 73,075 |
| Deferred tax liabilities | | 209,337 | 215,322 |
| Other long-term liabilities | | 92,007 | 103,982 |
| | | 373,163 | 392,379 |
| NET ASSETS | | | |
| | | 7,562,536 | 7,240,979 |
| CAPITAL AND RESERVES | | | |
| Issued equity | | 5,887,384 | 5,887,384 |
| Reserves | | 1,738,652 | 1,455,865 |
| Total equity attributable to owners of the Company | | 7,626,036 | 7,343,249 |
| Non-controlling interests | | (63,500) | (102,270) |
| TOTAL EQUITY | | 7,562,536 | 7,240,979 |

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, comparative information is not restated. See note 2.

The notes on pages 37 to 58 form part of this interim financial report.

Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

| | Attributable to owners of the Company | | | | | | | | | | |
|--|---------------------------------------|--|--|--|---|--|---|-------------------------------|------------------|--------------------------------------|------------------|
| | 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 (non-recycling) RMB'000 (Note d) | Special reserve RMB'000 (Note e) | Exchange reserve RMB'000 (Note f) | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total RMB'000 |
| Balance at 1 January 2019 | 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 |
| Profit for the period | - | - | - | - | - | - | - | 447,704 | 447,704 | 14,510 | 462,214 |
| Other comprehensive income for the period | - | - | - | - | (10,527) | - | 8,289 | - | (2,238) | - | (2,238) |
| Total comprehensive income for the period | - | - | - | - | (10,527) | - | 8,289 | 447,704 | 445,466 | 14,510 | 459,976 |
| Maintenance and production fund (Note e) | - | - | - | - | - | 5,363 | - | (5,363) | - | - | - |
| Reduction in non-controlling interests through capital injection | - | (24,260) | - | - | - | - | - | - | (24,260) | 24,260 | - |
| Dividend declared (Note 14(b)) | - | - | - | (138,419) | - | - | - | - | (138,419) | - | (138,419) |
| Balance at 30 June 2019 | 5,887,384 | 620,945 | 366,484 | 1,770,101 | (10,717) | 70,792 | (515,439) | (563,514) | 7,626,036 | (63,500) | 7,562,536 |

| | Attributable to owners of the Company | | | | | | | | | |
|--|---------------------------------------|--|--|--------------------------------|---|--|---|-------------------------------|------------------|--------------------------------------|
| | Issued equity RMB'000 | Capital and other reserve RMB'000 (Note a) | Statutory reserve RMB'000 (Note b) | Contributed surplus RMB'000 | Fair value reserve (non-recycling) RMB'000 (Note d) | Special reserve RMB'000 (Note e) | Exchange reserve RMB'000 (Note f) | Accumulated losses RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 |
| Balance at 1 January 2018 | 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 period | - | - | - | - | - | - | 314,923 | 314,923 | 10,102 | 325,025 |
| Other comprehensive income for the period | - | - | - | (2,162) | - | 30,422 | - | 28,260 | - | 28,260 |
| Total comprehensive income for the period | - | - | - | (2,162) | - | 30,422 | 314,923 | 343,183 | 10,102 | 353,285 |
| Maintenance and production fund (Note e) | - | - | - | - | 4,884 | - | (4,884) | - | - | - |
| Dividends paid | - | - | - | - | - | - | - | - | (6,555) | (6,555) |
| Balance at 30 June 2018 | 8,267,384 | 732,329 | 366,484 | 25,452 | 65,636 | (593,282) | (1,623,105) | 7,240,898 | (207,771) | 7,033,127 |

The notes on pages 37 to 58 form part of this interim financial report.

Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2019 – unaudited
(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.
- 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. 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 Hong Kong Financial Reporting Standard 9 that are held at the end of the 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 currencies other than Renminbi (“RMB”).

The notes on pages 37 to 58 form part of this interim financial report.

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2019 – unaudited
(Expressed in Renminbi)

| | Six months ended 30 June | |
|---|--------------------------|--------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Operating activities | | |
| Cash generated from/(used in) operations | 193,130 | (2,122,964) |
| Income tax paid | (5,454) | (3,474) |
| Net cash generated from/(used in) operating activities | 187,676 | (2,126,438) |
| Investing activities | | |
| Purchase of property, plant and equipment | (300,222) | (207,723) |
| Proceeds from disposals of property, plant and equipment | 5,827 | 6,071 |
| Acquisition of other long-term assets | (5,896) | (3,617) |
| Additions of prepaid lease payments | (7,496) | – |
| Final installment received from disposal of an associate | – | 5,629,179 |
| Interest received | 65,042 | 47,733 |
| Loans to a related party | (258,000) | – |
| Loans repaid by related parties | 590,000 | – |
| Placement of time deposits | (434,057) | – |
| Proceeds from withdrawal of time deposits | 500,000 | – |
| Proceeds from sales of other financial assets | 80,000 | – |
| Purchase of other financial assets | – | (296,420) |
| Net cash generated from investing activities | 235,198 | 5,175,223 |
| Financing activities | | |
| Repayment of bank and other loans | (2,326,767) | (1,861,500) |
| Proceeds from new bank and other loans | 2,378,692 | 307,500 |
| Proceeds from short-term commercial paper | 1,000,000 | – |
| Capital element of lease rentals paid | (15,704) | – |
| Interest element of lease rentals paid | (770) | – |
| Other Interest paid | (19,077) | (42,482) |
| Dividends paid | – | (1,074) |
| Net cash generated from/(used in) financing activities | 1,016,374 | (1,597,556) |
| Net increase in cash and cash equivalents | 1,439,248 | 1,451,229 |
| Cash and cash equivalents as at 1 January | 589,130 | 286,816 |
| Effect of foreign exchange rate changes | (625) | 5,607 |
| Cash and cash equivalents at 30 June | 2,027,753 | 1,743,652 |

The notes on pages 37 to 58 form part of this interim financial report.

Notes to Condensed Consolidated Financial Statements

(Expressed in Renminbi unless otherwise indicated)

1 Basis of preparation

This interim financial report of Sinofert Holdings Limited (the “Company”) and its subsidiaries (together referred to as the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). It was authorized for issue on 27 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the HKICPA. KPMG’s independent review report to the Board of Directors is included in this report.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2018 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 28 March 2019.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognize a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognized the cumulative effect of initial application as an adjustment to the opening balance at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

The following table reconciles the operating lease commitments as disclosed in note 16(b) as at 31 December 2018 to the opening balance for lease liabilities recognized as at 1 January 2019:

| | 1 January 2019 |
|---|-----------------------|
| | RMB'000 |
| Operating lease commitments at 31 December 2018 | 63,729 |
| Less: commitments relating to leases exempt from capitalization: | |
| – short-term leases and other leases with remaining lease term ending on or before 31 December 2019 and leases of low value assets | (16,282) |
| – Non-lease components | (3,516) |
| | 43,931 |
| Less: total future interest expenses | (1,673) |
| Present value of remaining lease payments, discounted using the incremental borrowing rate and lease liabilities recognized at 1 January 2019 | 42,258 |

The right-of-use assets in relation to leases previously classified as operating leases have been recognized at an amount equal to the amount recognized for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position at 31 December 2018.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

| | Carrying amount at 31 December 2018 RMB'000 | Capitalization of operating lease contracts RMB'000 | Carrying amount at 1 January 2019 RMB'000 |
|--|--|--|--|
| Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16: | | | |
| Right-of-use assets | – | 530,748 | 530,748 |
| Lease prepayments (non-current) | 474,636 | (474,636) | – |
| Total non-current assets | 5,909,789 | 56,112 | 5,965,901 |
| Lease prepayments (current) | 13,854 | (13,854) | – |
| Current assets | 11,697,640 | (13,854) | 11,683,786 |
| Lease liabilities (current) | – | 26,853 | 26,853 |
| Current liabilities | 9,974,071 | 26,853 | 10,000,924 |
| Net current assets | 1,723,569 | (40,707) | 1,682,862 |
| Total assets less current liabilities | 7,633,358 | 15,405 | 7,648,763 |
| Lease liabilities (non-current) | – | 15,405 | 15,405 |
| Total non-current liabilities | 392,379 | 15,405 | 407,784 |
| Net assets | 7,240,979 | – | 7,240,979 |

The analysis of the net book value of the Group's right-of-use assets by class of underlying asset at the end of the reporting period and at the date of transition to HKFRS 16 is as follows:

| | At 30 June 2019 RMB'000 | At 1 January 2019 RMB'000 |
|--|-------------------------------|---------------------------------|
| Properties leased for own use, carried at depreciated cost | 31,693 | 42,258 |
| Lease prepayments | 489,389 | 488,490 |
| | 521,082 | 530,748 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

2 Changes in accounting policies (continued)

HKFRS 16, Leases (continued)

(a) Lease liabilities

The remaining contractual maturities of the Group's lease liabilities at the end of the reporting period and at the date of transition to HKFRS 16 are as follows:

| | At 30 June 2019 | | At 1 January 2019 | |
|---|--|--|--|--|
| | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 | Present value of the minimum lease payments RMB'000 | Total minimum lease payments RMB'000 |
| Within 1 year | 21,361 | 21,966 | 26,853 | 27,457 |
| After 1 year but within 2 years | 5,193 | 5,491 | 15,405 | 16,474 |
| | 26,554 | 27,457 | 42,258 | 43,931 |
| Less: total future interest expenses | | (903) | | (1,673) |
| Present value of lease liabilities | | 26,554 | | 42,258 |

(b) Impact on the financial result and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognize interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognizing rental expenses incurred under operating leases on a straight-line basis over the lease term. The impact on profit before tax is not significant during the period.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalized leases into their capital element and interest element. These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. The total cash flows are unaffected.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and segment reporting

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

| | Six months ended 30 June | |
|---|--------------------------|-------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Revenue from contracts with customers within the scope of HKFRS 15 | | |
| Disaggregated by major products of service lines | | |
| – Sales of potash fertilizer | 2,470,198 | 2,924,662 |
| – Sales of nitrogen fertilizer | 3,693,040 | 2,899,981 |
| – Sales of compound fertilizer | 3,431,463 | 3,377,005 |
| – Sales of phosphate fertilizer | 3,225,556 | 2,666,663 |
| – Sales of monocalcium/dicalcium phosphate (“MCP/DCP”) | 462,518 | 434,334 |
| – Sales of other products | 875,847 | 734,668 |
| | 14,158,622 | 13,037,313 |
| Disaggregated by geographical location of customers | | |
| – Mainland China | 13,684,344 | 12,634,526 |
| – Others | 474,278 | 402,787 |
| | 14,158,622 | 13,037,313 |

All revenue from contracts with customers is recognized at point in time.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and segment reporting (continued)

(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 fertilizers
- Production: production and sales of fertilizers and MCP/DCP, share of results of associates held by subsidiaries in Production segment.

For the six months ended 30 June 2019

| | Basic Fertilizers RMB'000 | Distribution RMB'000 | Production RMB'000 | Elimination RMB'000 | Total RMB'000 |
|---|---------------------------------|-------------------------|-----------------------|------------------------|------------------|
| External revenue | 9,685,020 | 3,343,978 | 1,129,624 | – | 14,158,622 |
| Internal revenue | 190,661 | 5,029 | 964,635 | (1,160,325) | – |
| Reportable segment revenue | 9,875,681 | 3,349,007 | 2,094,259 | (1,160,325) | 14,158,622 |
| Share of results of associates | – | – | 3,157 | – | 3,157 |
| Segment profit | 344,995 | 104,606 | 132,866 | – | 582,467 |
| Unallocated share of results of associates | | | | | 11,958 |
| Unallocated share of results of joint ventures | | | | | 16,974 |
| Unallocated expenses | | | | | (206,859) |
| Unallocated income | | | | | 65,110 |
| Profit before taxation | | | | | 469,650 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

3 Revenue and segment reporting (continued)

(b) Segment reporting (continued)

| | For the six months ended 30 June 2018 | | | | |
|---|---------------------------------------|-------------------------|-----------------------|------------------------|------------------|
| | Basic | | | | Total RMB'000 |
| | Fertilizers RMB'000 | Distribution RMB'000 | Production RMB'000 | Elimination RMB'000 | |
| External revenue | 8,641,465 | 3,307,340 | 1,088,508 | – | 13,037,313 |
| Internal revenue | 204,149 | 3,289 | 968,812 | (1,176,250) | – |
| Reportable segment revenue | 8,845,614 | 3,310,629 | 2,057,320 | (1,176,250) | 13,037,313 |
| Share of results of associates | – | – | (11,464) | – | (11,464) |
| Segment profit/(loss) | 312,230 | 98,684 | (2,049) | – | 408,865 |
| Unallocated share of results of associates | | | | | 8,452 |
| Unallocated share of results of joint ventures | | | | | 10,899 |
| Unallocated expenses | | | | | (163,473) |
| Unallocated income | | | | | 59,929 |
| Profit before taxation | | | | | 324,672 |

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment profit/(loss) represents the profit/(loss) earned by each segment without taking into account of unallocated share of results of associates and joint ventures, unallocated expenses/income and finance costs in relation to the unallocated interest-bearing borrowings and short-term commercial paper. This is the measure reported to the Group's CODM for the purposes of resource allocation and performance assessment.

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.

During the reporting period, the Group has changed the performance assessment method for each reportable segment. Allocation of operating expenses, share of results of associates and joint ventures and also interest income and expenses has been changed based on the new performance assessment method. Certain comparative amounts in the segment information have been adjusted to conform with current period's presentation.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

4 Profit before taxation

Profit before taxation is arrived at after charging/(crediting):

(a) Finance costs

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Interest on borrowings | | |
| – wholly repayable within five years | 96,271 | 122,384 |
| Interest on lease liabilities | 770 | – |
| Less: interest expense capitalized (note) | (645) | (515) |
| | 96,396 | 121,869 |

Note: The capitalization rate used to determine the amount of borrowing costs eligible for capitalization related to construction of plant is 5% for the current period (the corresponding period in 2018: 5%).

(b) Other items

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Depreciation charge | | |
| – owned property, plant and equipment | 130,794 | 129,621 |
| – right-of-use assets | 17,162 | – |
| Amortization of lease prepayments | – | 6,521 |
| Amortization of mining rights | 16,548 | 16,430 |
| Amortization of other long-term assets | 3,930 | 2,209 |
| Release of deferred income | (6,449) | (6,601) |
| Impairment of trade and bills receivables | 3,382 | 379 |
| Reversal of impairment of prepayments | (1,000) | – |
| Inventory write-down, net of reversal | 615 | 7,033 |
| Loss/(gain) on disposal of property, plant and equipment | 105 | (4,993) |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

5 Income tax

| | Six months ended 30 June | |
|---|--------------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Current tax – PRC Enterprise Income Tax | 11,496 | 6,613 |
| Deferred taxation | (4,060) | (6,966) |
| | 7,436 | (353) |

- (i) The provision for Hong Kong Profits Tax is calculated by applying at 16.5% (2018: 16.5%) of the estimated assessable profits for the six months ended 30 June 2019.
- (ii) The provision for the PRC Enterprise Income Tax is based on the statutory rate of 25% (2018: 25%) on the estimated taxable profits determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Group which enjoy a preferential tax rate according to related tax policies.
- (iii) A subsidiary of the Group incorporated in Macao Special Administrative Region is exempted from income tax.

6 Earnings per share

The calculation of basic earnings per share is as follows:

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Profit attributable to owners of the Company | | |
| Profit for the purpose of basic earnings per share | 447,704 | 314,923 |
| | '000 shares | '000 shares |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | 7,024,456 | 7,024,456 |

The Group has no dilutive ordinary shares outstanding for the period ended 30 June 2019. Therefore, there was no difference between basic and diluted earnings per share.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

7 Property, plant and equipment

Acquisitions and disposals of owned assets

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with a cost of RMB240,239,000 (the corresponding period in 2018: RMB207,723,000). Items of property, plant and equipment with a net book value of RMB5,932,000 were disposed (the corresponding period in 2018: RMB1,078,000), resulting in a loss on disposal of RMB105,000 (gain in the corresponding period in 2018: RMB4,993,000)

8 Goodwill

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|------------------------|--|-----------------------------------|
| Carrying Amount | | |
| At 1 January | 843,442 | 829,075 |
| Exchange adjustments | 1,247 | 14,367 |
| At 30 June/31 December | 844,689 | 843,442 |

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

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|------------------------------|--|-----------------------------------|
| Basic fertilizers | 189,800 | 189,045 |
| Distribution | 89,318 | 88,962 |
| Production | | |
| – Sinochem Yunlong Co., Ltd. | 531,074 | 531,074 |
| – Others | 34,497 | 34,361 |
| | 844,689 | 843,442 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

8 Goodwill (continued)

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 sales 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.

The value in use calculated is higher than the carrying amount for each CGU, accordingly, no impairment of goodwill was recognized for the period ended 30 June 2019 and 2018.

9 Trade and bills receivables

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|------------------------------------|-------------------------------|-----------------------------------|
| Trade receivables | 236,250 | 46,743 |
| Bills receivable | 448,428 | 490,648 |
| Less: allowance for doubtful debts | (6,034) | (2,674) |
| Trade and bills receivables | 678,644 | 534,717 |

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

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|------------------------------------|-------------------------------|-----------------------------------|
| Within 3 months | 597,564 | 338,987 |
| Over 3 months but within 6 months | 54,337 | 129,899 |
| Over 6 months but within 12 months | 10,241 | 63,581 |
| Over 12 months | 16,502 | 2,250 |
| | 678,644 | 534,717 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

9 Trade and bills receivables (continued)

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.

10 Trade and bills payables

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|--------------------------|--|-----------------------------------|
| Trade payables | 1,887,456 | 1,264,013 |
| Bills payable | 1,517,027 | 1,879,121 |
| Trade and bills payables | 3,404,483 | 3,143,134 |

As at the end of the reporting period, the aging analysis of trade and bills payables presented based on the invoice date is as follows:

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|------------------------------------|--|-----------------------------------|
| Within 3 months | 2,781,842 | 2,347,968 |
| Over 3 months but within 6 months | 566,319 | 676,689 |
| Over 6 months but within 12 months | 25,519 | 31,184 |
| Over 12 months | 30,803 | 87,293 |
| | 3,404,483 | 3,143,134 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

11 Other payables

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|--|-------------------------------|-----------------------------------|
| Payroll payables | 104,427 | 70,013 |
| Interest payables | 104,378 | 27,184 |
| Dividends payable | 167,331 | 30,096 |
| Payables for purchase of property, plant and equipment and land use rights | 218,309 | 243,401 |
| Other taxes payables | 35,476 | 77,160 |
| Others | 276,998 | 346,281 |
| | 906,919 | 794,135 |

12 Interest-bearing borrowings

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|--|-------------------------------|-----------------------------------|
| Bank and other loans | | |
| Bank loans, secured (note ii) | 6,000 | – |
| Borrowings from Sinochem Finance Co., Ltd. (“Sinochem Finance”) (note 17(b)) | 102,000 | 57,500 |
| | 108,000 | 57,500 |
| Bonds (note i) | | |
| Principle amount | 3,030,000 | 3,030,000 |
| Less: unamortized transaction costs | (690) | (2,115) |
| | 3,029,310 | 3,027,885 |
| | 3,137,310 | 3,085,385 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

12 Interest-bearing borrowings (continued)

Notes:

- i 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.

- ii As at 30 June 2019, certain property, plant and equipment with carrying values of approximately RMB2,378,000 (As at 31 December 2018: RMB2,658,000) were pledged to secure banking facilities and borrowings granted to the Group.

All of the interest-bearing borrowings are carried at amortized cost and repayable within one year.

13 Short-term commercial paper

One of the Group's subsidiaries issued a 180-days super & short-term commercial paper of RMB1 billion in the PRC debenture market on 26 April 2019 which bears an interest rate of approximately 3% per annum.

14 Dividends

(a) Dividends payable to equity shareholders of the Group attributable to the interim period

The Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2019 (the corresponding period in 2018: nil).

(b) Dividends payable to equity shareholders of the Group attributable to the previous financial year, approved during the interim period.

| | Six months ended 30 June | |
|--|--------------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Final dividend in respect of the previous financial year, approved during the following interim period, of HK\$0.0224 per share (the corresponding period in 2018: nil). | 138,419 | – |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

15 Fair value measurement of financial instruments

(a) 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, categorized 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

| | Fair value at 30 June 2019 RMB'000 | Fair value measurements as at 30 June 2019 categorised into | | |
|-------------------------------|---|--|--------------------|--------------------|
| | | Level 1 RMB'000 | Level 2 RMB'000 | Level 3 RMB'000 |
| Non-trading listed securities | 101,402 | 101,402 | – | – |
| Unlisted equity securities | 386,566 | – | – | 386,566 |
| Other financial assets | 117,430 | – | – | 117,430 |
| Bills receivable | 445,068 | – | – | 445,068 |
| Total | 1,050,466 | 101,402 | – | 949,064 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

15 Fair value measurement of financial instruments (continued)

(a) 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 | Level 2 | Level 3 |
| | | RMB'000 | RMB'000 | RMB'000 |
| Non-trading listed securities | 111,929 | 111,929 | – | – |
| Unlisted equity securities | 386,566 | – | – | 386,566 |
| Other financial assets | 197,725 | – | – | 197,725 |
| Total | 696,220 | 111,929 | – | 584,291 |

During the six months ended 30 June 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2018: nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurement

- The valuation model is based on market multiples derived from quoted prices of companies comparable to the investee, adjusted for the effect of the non-marketability of the equity securities and adjusted EBIDTA of the investee.
- The fair values of bills receivables and other financial assets which represents the wealth management products are measured using discounted cash flow method.

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

The carrying amounts of the Group's financial instruments carried at cost or amortized cost were not materially different from their fair values as at 31 December 2018 and 30 June 2019.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

16 Commitments

(a) Capital commitments

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|--|-------------------------------|-----------------------------------|
| Contracted but not provided for | | |
| – Property, plant and equipment | 154,485 | 188,350 |
| Authorised but not contracted for | | |
| – Property, plant and equipment | 1,093,484 | 1,211,375 |
| | 1,247,969 | 1,399,725 |

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

| | At 31 December 2018 RMB'000 |
|---------------------------------|-----------------------------------|
| Within 1 year | 37,536 |
| Over 1 year, but within 5 years | 26,193 |
| | 63,729 |

The Group is the lessee in respect of a number of properties and items of plant and machinery and office equipment held under leases which were previously classified as operating leases under HKAS 17. The Group has initially applied HKFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognize lease liabilities relating to these leases (see note 2). From 1 January 2019 onwards, future lease payments are recognized as lease liabilities in the statement of financial position in accordance with the policies set out in note 2.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

17 Related party transactions

(a) Transactions with related parties

In addition to the transactions and balances disclosed elsewhere in the interim financial report, the Group entered into the following material transactions with related parties during the period:

| | Six months ended 30 June | |
|--|--------------------------|------------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Sales of fertilizers to | | |
| Fellow subsidiaries | 311,823 | 63,995 |
| Ultimate holding company | – | 40,915 |
| Joint ventures | 168,088 | 138,071 |
| Associate of the ultimate holding company | 86,077 | 450,225 |
| | 565,988 | 693,206 |
| Purchases of fertilizers from | | |
| Ultimate holding company | 48,885 | 146,905 |
| Joint ventures | 805,837 | 491,243 |
| Associates | 25,559 | 118,528 |
| A subsidiary of a shareholder with significant influence over the Company | 544,208 | 315,019 |
| Associate of the ultimate holding company | 604,249 | 596,364 |
| | 2,028,738 | 1,668,059 |
| Import service fee paid to | | |
| A fellow subsidiary | 11,507 | 10,772 |
| Office rental fee paid to | | |
| Immediate holding company | 1,180 | 1,070 |
| Fellow subsidiaries | 17,298 | 13,399 |
| | 18,478 | 14,469 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

17 Related party transactions (continued)

(a) Transactions with related parties (continued)

| | Six months ended 30 June | |
|---|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Loans to a related party | | |
| A fellow subsidiary | 258,000 | – |
| Repayments of loans to related parties | | |
| A fellow subsidiary | 90,000 | – |
| Indirect holding company | 500,000 | – |
| | 590,000 | – |
| Interest income from related parties | | |
| An associate | 19,615 | 18,014 |
| A fellow subsidiary | 19,070 | – |
| Indirect holding company | 1,282 | – |
| | 39,967 | 18,014 |
| Loans from a related party | | |
| A fellow subsidiary | 1,950,000 | 2,072,500 |
| Repayment of loans from related parties | | |
| A fellow subsidiary | 1,905,500 | 2,126,500 |
| Ultimate holding company | – | 1,500,000 |
| | 1,905,500 | 3,626,500 |
| Interest expenses for loans from related parties | | |
| Fellow subsidiaries | 7,618 | 13,532 |
| Ultimate holding company | – | 14,019 |
| | 7,618 | 27,551 |
| Purchases of financial assets from | | |
| A fellow subsidiary | – | 296,420 |

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

17 Related party transactions (continued)

(a) Transactions with related parties (continued)

| | Six months ended 30 June | |
|--|--------------------------|-----------------|
| | 2019 RMB'000 | 2018 RMB'000 |
| Proceeds received from sales of financial assets to | | |
| A fellow subsidiary | 80,000 | – |
| Interests income of financial assets from | | |
| A fellow subsidiary | 6,836 | 6,293 |
| Deposits in a fellow subsidiary | 605,425 | 1,005,909 |

(b) Balances with related parties

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

| | At 30 June 2019 RMB'000 | At 31 December 2018 RMB'000 |
|-----------------------------------|-------------------------------|-----------------------------------|
| Trade receivables | 30,951 | 8,617 |
| Other receivables and prepayments | 184,102 | 298,731 |
| Trade and bills payables | 867,981 | 494,522 |
| Other payables | 52,919 | 48,112 |
| Contract liabilities | 2,605 | 2,811 |
| Loans to related parties | 1,638,000 | 1,970,000 |
| Borrowings (<i>note</i>) | 102,000 | 57,500 |
| Other financial assets | 117,430 | 197,725 |
| Cash and cash equivalents | 305,425 | 458,834 |
| Time deposits | 300,000 | 500,000 |

Note: Borrowings from Sinochem Finance are borrowed with a maturity period within 1 year at fixed interest rates from 2.10% to 4.36% per annum.

Notes to Condensed Consolidated Financial Statements (continued)

(Expressed in Renminbi unless otherwise indicated)

17 Related party transactions (continued)

(c) Transactions 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.

During the reporting period, the Group had the following significant transactions with other state-controlled entities:

| | Six months ended 30 June | |
|--------------------------|--------------------------|-----------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Sales of fertilizers | 1,238,920 | 1,545,129 |
| Purchases of fertilizers | 4,123,470 | 3,457,574 |

(d) Compensation of key management personnel

| | Six months ended 30 June | |
|---|--------------------------|---------|
| | 2019 | 2018 |
| | RMB'000 | RMB'000 |
| Salaries and other benefits | 3,703 | 3,693 |
| Retirement benefit scheme contributions | 164 | 187 |
| Fees | 739 | 605 |
| | 4,606 | 4,485 |

18 Comparative figures

The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2.

Additional Information

INTERIM DIVIDEND

The board of directors of the Company (the "Board") did not recommend the declaration of interim dividend for the six months ended 30 June 2019.

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were disclosed below.

As at 30 June 2019, the following directors of the Company had long position in the ordinary shares of HK\$0.1 each of the Company:

| Name of director | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company |
|-------------------------|------------------|--|--|
| Lu Xin | Beneficial owner | 2,900,000 | 0.0413% |
| Tse Hau Yin, Aloysius | Beneficial owner | 3,404,000 | 0.0484% |

Save as disclosed above, as at 30 June 2019, 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 period and as at 30 June 2019, 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 the 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.

Additional Information

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, 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") <i>(Note 1)</i> | 3,698,660,874 | 52.65% |
| Sinochem Corporation <i>(Note 1)</i> | 3,698,660,874 | 52.65% |
| Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") <i>(Note 2)</i> | 3,698,660,874 | 52.65% |
| Nutrien Ltd. <i>(Note 3)</i> | 1,563,312,141 | 22.26% |
| Potash Corporation of Saskatchewan Inc. ("Potash Corporation") <i>(Note 3)</i> | 1,563,312,141 | 22.26% |
| PCS (Barbados) Investment Company Limited ("PCS") <i>(Note 4)</i> | 1,563,312,141 | 22.26% |

Notes:

1. Sinochem HK is the wholly-owned subsidiary of Sinochem Corporation (中國中化股份有限公司). Sinochem Corporation is the 98% owned subsidiary of Sinochem Group 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.
2. Sinochem HK was beneficially interested in 3,698,660,874 ordinary shares of the Company.
3. PCS is the wholly-owned subsidiary of Potash Corporation. Potash Corporation is the 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.
4. 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 30 June 2019, which were required to be recorded in the register maintained by the Company under section 336 of the SFO.

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 six months ended 30 June 2019.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transaction by directors. The Company has made specific enquiries with all directors of the Company, and all directors confirmed that they had complied with the required standards set out in the Model Code throughout the six months ended 30 June 2019.

The Company has also adopted written guidelines on no less exacting terms than the Model Code for relevant employees. No incident of non-compliance of the employees' written guidelines by relevant employees was noted by the Company during the period.

CORPORATE GOVERNANCE STANDARDS

Recognizing the importance of a publicly listed company's responsibilities to enhance its transparency and accountability, the Company 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 complies with the applicable corporate governance standards contained in relevant code provisions as set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules during the six months ended 30 June 2019 and up to the date of this report, 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 period and up to the date of this report, the Board approved certain continuing connected transactions by circulation of written resolutions in lieu of physical board meeting, for which a director who is nominated by the ultimate controlling shareholder of the Company, was regarded as having material interests therein. The Board considered that the adoption of written resolution in lieu of physical board meeting allowed the Board to make a decision relatively quicker in response to the rapid change in the fertilizer markets. Before formal execution of the written resolution, 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. Since there is no chairman of the Board of the Company following Mr. Zhang Wei's resignation on 11 January 2019, in accordance with the Company's Bye-laws of the Company, Mr. Harry Yang, an executive director of the Company, was elected by the directors to chair the annual general meeting of the Company held on 18 June 2019 (the "2019 AGM"). Respective chairmen and/or members of the audit, remuneration, nomination and corporate governance committees of the Company were present at the 2019 AGM and were available to answer relevant questions, which was in compliance with other part of code provision E.1.2.

Save as disclosed above, please refer to the "Corporate Governance Report" contained in the Company's 2018 annual report for more information about the corporate governance of the Company.



Additional Information

AUDIT COMMITTEE

The audit committee of the Company (the “Audit Committee”) has reviewed, with the management and the external auditors, the condensed consolidated financial statements of the Company for the six months ended 30 June 2019, including the review of the accounting principles and practices adopted by the Group. The Audit Committee has also discussed with the management about auditing, risk management, internal controls, and financial reporting matters of the Group.

DISCLOSURE OF INFORMATION OF DIRECTORS

Pursuant to the disclosure requirements under rule 13.51B(1) of the Listing Rules, the changes/updates of information of director(s) during the six months ended 30 June 2019 and up to the date of this report are as follows:

1. As resolved by the Remuneration Committee of the Company on 27 March 2019, the fixed annual compensation of Mr. Qin Hengde, executive director and Chief Executive Officer of the Company, for the year 2019 was revised to RMB1,892,900, which was determined with reference to his experience and responsibilities, and the prevailing market standards. Mr. Qin is also entitled to receive year-end bonus which will be determined by reference to the operating results of the Group and his individual performance in 2019.
2. As resolved by the Board of the Company on 28 March 2019, the annual fixed director fee of Mr. Ko Ming Tung, Edward, Mr. Lu Xin and Mr. Tse Hau Yin, Aloysius, independent non-executive directors of the Company, for the year 2019 were revised to HK\$538,000, HK\$538,000 and HK\$633,000 respectively.
3. On 30 July 2019, Mr. Qin Hengde, executive director and Chief Executive Officer of the Company, was appointed as the President of the China Region of Syngenta Company. The principal activities of Syngenta Company are the production and sale of seeds and pesticides, which has no conflict with the Company’s existing business.

BOARD OF DIRECTORS

As at the date of this report, the executive directors of the Company are Mr. Qin Hengde (Chief Executive Officer) and Mr. Harry Yang; the non-executive director of the Company is Mr. Yang Lin and the independent non-executive directors of the Company are Mr. Ko Ming Tung, Edward, Mr. Lu Xin and Mr. Tse Hau Yin, Aloysius.

For and on behalf of the Board

Qin Hengde

Executive Director and Chief Executive Officer

Hong Kong, 27 August 2019

