



INNOVATION



Corporate Governance Report

Summary of Duties of the Board of Directors and Various Committees

Board of Directors

The Board monitors and supervises the management, businesses, strategic planning and financial performance of the Group and considers that its duties are to enhance values for shareholders.

The Board is primarily responsible for making decisions in respect of the following matters:

- approval and supervision of strategic planning;
- approval of annual budget target and financial policies;
- review of financial performance and results;
- review of dividend policy;
- major acquisitions, investment, asset disposal or other significant expenditures; and
- supervision of internal risk management policy.

The Board shall be responsible for the preparation of the financial statements which give a true and fair view of the financial positions of the Company and the Group and the financial results and cash flows of the Group. In preparing the financial statements for the year ended 31 December 2005, Directors have adopted appropriate accounting policies and applied those policies consistently. Directors shall also make prudent, fair and reasonable judgment and estimation in preparing financial statements under going concern. Directors shall also be responsible for maintaining appropriate accounting records that accurately and reasonably reveal the financial position of the Group at any time.

The Board currently comprises two Executive Directors and eight Non-executive Directors (three of them are Independent Non-executive Directors). The profiles of all the Directors (including the Chairman, Chief Executive Officer, Executive Directors, Non-executive Directors and Independent Non-executive Directors) are set out on pages 14 to 17 of the annual report. For the year ended 31 December 2005, Mr. Liu De Shu, Mr. Song Yu Qing, Mr. Du Ke Ping, Dr. Chen Guo Gang and Mr. Harry Yang held directorships or other positions within the group comprising Sinochem Corporation (the ultimate controlling shareholder of the Company), its subsidiaries and associated companies. Both Dr. Stephen Francis Dowdle and Mr. Wade Fetzer III are nominated by PotashCorp, the second largest shareholder of the Company. Mr. Fetzer is also a director of PotashCorp. Other than as described above, there is no other relationship among the Directors and, in particular, between the Chairman and the Chief Executive Officer.

The Board has delegated the day-to-day responsibility to the executive management under the instruction and supervision of the Chief Executive Officer. Mr. Liu De Shu, as the Chairman, is responsible for the leadership and effective running of the Board. Mr. Du Ke Ping, acting as the Chief Executive Officer, is responsible for effective running of the Company's business and management and implementing the policies devised by the Board.

The Company has three Independent Non-executive Directors with relevant professional qualifications or accounting expertise. In this respect, the Company has complied with Rule 3.10(1) and 3.10(2) of the Listing Rules. In compliance with Rule 3.13 of the Listing Rules, the Company has received a written confirmation from each of the Independent Non-executive Director confirming his independence with the Company. The Company confirmed that all the Independent Non-Executive Directors are independent to the Company.

Corporate Governance Report

Pursuant to the existing Articles of the Company, all the directors shall retire by rotation and be re-elected subject to the approval of shareholders at the annual general meeting. The Board has resolved that the term of office for all Non-executive Directors is fixed for two years.

For the year ended 31 December 2005, the Board held a total of eight meetings to discuss the Group's financial and operation performance and the attendance rates of the Chairman, Mr. Liu De Shu and all other members of the Board were as follows:

| | | Attendance rate |
|--|-------|------------------------|
| Independent Non-executive Directors | | |
| Mr. Ko Ming Tung, Edward | | 8/8 |
| Dr. Li Ka Cheung, Eric | | 6/8 |
| Dr. Tang Tin Sek | | 8/8 |
| Non-executive Directors | | |
| Mr. Liu De Shu | (i) | 4/8 |
| Mr. Song Yu Qing | (i) | 8/8 |
| Dr. Chen Guo Gang | (ii) | 4/4 |
| Dr. Stephen Francis Dowdle | (ii) | 4/4 |
| Mr. Wade Fetzer III | (iii) | 0/0 |
| Executive Directors | | |
| Mr. Du Ke Ping | (iv) | 4/4 |
| Ms. Chen Hao | (v) | 8/8 |
| Mr. Harry Yang | (vi) | 0/0 |
| Mr. Chu Yin Lin, David | (vii) | 4/5 |
| Mrs. Chu Ho Miu Hing | (vii) | 2/5 |

- (i) Re-designated from Executive Director to Non-executive Director on 27 July 2005.
- (ii) Appointed as Non-executive Director on 27 July 2005.
- (iii) Appointed as Non-executive Director on 27 March 2006.
- (iv) Appointed as Executive Director on 27 July 2005.
- (v) Resigned as Executive Director on 6 March 2006.
- (vi) Appointed as Executive Director on 6 March 2006.
- (vii) Resigned as Executive Director on 31 August 2005.

Corporate Governance Report

The Board has established the Audit Committee, the Remuneration Committee and the Nomination Committee.

Audit Committee

The Audit Committee was established in 1999. Its current members are: Dr. Li Ka Cheung, Eric (Chairman), Mr. Ko Ming Tung, Edward and Dr. Tang Tin Sek, all being independent non-executive directors of the Company.

The primary responsibilities of the Audit Committee are:

- (i) to make recommendation to the Board on the appointment, reappointment and removal of the auditors, approve the audit fees and terms of engagement, and handle any issue regarding their resignation or dismissal;
- (ii) to review and monitor matters relating to the independence and objectiveness of the auditors and the effectiveness of audit procedures in accordance with the applicable standards;
- (iii) to develop and implement policies regarding the provision of non-audit services by the auditors;
- (iv) to monitor the integrity of the Group's annual report and accounts, interim report and (if proposed to issue) quarterly report, and to review significant financial reporting judgements contained in them;
- (v) to review the financial control, internal control and risk management system of the Group;
- (vi) to discuss the internal control system with the management as to ensure that the management has discharged its duty to have an effective internal control system;
- (vii) to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;
- (viii) to review the financial and accounting policies and practices of the Group;
- (ix) to review the auditors' management letter, any material queries raised by the auditors to the management in respect of accounting records, financial accounts or control system and management's response; and
- (x) to ensure that the board will provide a timely response to the issues raised in the auditors' management letter.

Corporate Governance Report

The Audit Committee met three times for the year ended 31 December 2005. Individual attendance of each Committee member at these meetings was as follows:

| | Attendance rate |
|--|------------------------|
| Independent Non-executive Directors | |
| Dr. Li Ka Cheung, Eric (<i>Chairman</i>) | 3/3 |
| Mr. Ko Ming Tung, Edward | 3/3 |
| Dr. Tang Tin Sek | 3/3 |
| In Attendance: | |
| Chief Financial Officer | 2/2* |
| Qualified Accountant | 3/3 |
| The Auditors | 3/3 |

* Appointed on 31 August 2005

The Audit Committee has reviewed the financial statements for the year ended 31 December 2005 with the management and the Company's Auditors, and recommended its adoption by the Board.

For the year ended 31 December 2005, the Audit Committee had completed the following major work:

- Reviewed the Directors' Report, financial statements, the annual report as well as results announcement in respect of the financial position of the Group for the year ended 31 December 2005, and recommended their adoption by the Board;
- Reviewed the interim financial statements, interim report and results announcement of the Company for the nine months ended 30 September 2005, and recommended their adoption by the Board;
- Reviewed and discuss significant issues contained in the above;
- Reviewed the independency of the Auditors;
- Approved the audit fees for the year ended 31 March 2005;
- Specified the terms of reference of the Audit Committee;
- Reviewed and discussed the audit service plan, scope and relevant responsibility of reporting, before the commencement of audit/review works by the Auditors;
- Audit Committee met with the Auditors separately without the management's participation to discuss 2005 audit and related financial matters.

Corporate Governance Report

Remuneration Committee

The Remuneration Committee was established in August 2005. The Remuneration Committee currently comprises five members, three of them are Independent Non-executive Directors, namely Dr. Tang Tin Sek (Chairman), Dr. Li Ka Cheung, Eric, Mr. Ko Ming Tung, Edward and the other two members are Dr. Stephen Francis Dowdle, a Non-executive Director, and Ms. Chen Yi Qing, the Director of Human Resources of the Group.

The primary responsibilities of Remuneration Committee are:

- (i) to make recommendations to the Board on the policy and structure of remuneration of directors and senior management and on establishment of a formal and transparent procedure for developing such remuneration policy;
- (ii) to determine the remuneration packages of all Executive Directors and senior management including benefits in kind, pension rights and compensation payments (including those in relation to loss or termination of their office or appointment), and to make recommendation to the Board on the remuneration of Non-executive Directors;
- (iii) to review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time;
- (iv) to review and approve the compensation arrangements to Executive Directors and senior management in connection with any loss or termination of their office or appointment or dismissal or removal of directors for misconduct which shall be fair and not excessive;

The Remuneration Committee met three times for the year ended 31 December 2005. Individual attendance of each committee member at these meetings was as follows:

| | Attendance rate |
|---|------------------------|
| Independent Non-executive Directors | |
| Dr. Tang Tin Sek (<i>Chairman</i>) | 3/3 |
| Dr. Li Ka Cheung, Eric | 3/3 |
| Mr. Ko Ming Tung, Edward | 3/3 |
| Non-executive Director | |
| Dr. Stephen Francis Dowdle | 3/3 |
| Director of Human Resources of the Group | |
| Ms. Chen Yi Qing | 3/3 |

The Remuneration Committee carried out the following works during the year:

- considered and recommended the remuneration policy to the Board for its approval (details of compensation policy have been set out on page 60);
- considered and determined the remuneration for directors and senior management with reference to their experiences, responsibilities and prevailing market standards.

Corporate Governance Report

Nomination Committee

The Nomination Committee was established in August 2005. It currently comprises four members, three of them are Independent Non-executive Directors, namely Mr. Ko Ming Tung, Edward (Chairman), Dr. Li Ka Cheung, Eric, Dr. Tang Tin Sek, and one is a Non-executive Director, Dr. Stephen Francis Dowdle.

The primary responsibilities of the Nomination Committee are:

- (i) to review on a regular basis the structure, size and composition of the Board, and to make recommendations to the Board on any proposed change;
- (ii) to identify individuals suitably qualified to become board members, select or make recommendations to the Board on selection of individuals nominated for directorships;
- (iii) to assess the independence of Independent Non-executive Directors, and;
- (iv) to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the Chairman and the Chief Executive Officer.

The Nomination Committee met three times for the year ended 31 December 2005. Individual attendance of each Committee member at these meetings was as follows:

| | Attendance rate |
|--|------------------------|
| Independent Non-executive Directors | |
| Mr. Ko Ming Tung, Edward (<i>Chairman</i>) | 3/3 |
| Dr. Li Ka Cheung, Eric | 3/3 |
| Dr. Tang Tin Sek | 3/3 |
| Non-executive Director | |
| Dr. Stephen Francis Dowdle | 3/3 |

The Nomination Committee follows a formal, considered and transparent procedure for the recommendation of appointment of new directors. Appointments are first considered by the Nomination Committee. The recommendations of the Committee are then put to the Board for decision. Thereafter, all directors are subject to re-election by shareholders at the annual general meeting in their first year of appointment.

During the year, the Nomination Committee provided its advice on the aspects of professional caliber, expertise and experience required by the Company and on the appointment of qualified candidates for directorship.

Corporate Governance Report

Auditors

PricewaterhouseCoopers was appointed as the Company's auditors at the annual general meeting held on 31 August 2005. The fees for audit and audit related services provided by PricewaterhouseCoopers for the year ended 31 December 2005 amounted to HK\$5.32 million. Save as the foregoing, PricewaterhouseCoopers also provided non-audit services to the Group with an aggregate fee of HK\$1.46 million for the year ended 31 December 2005.

Investor Relationship and Information Disclosure

In accordance to the regulation and requirement of the regulatory authority, the Company actively accomplishes various tasks regarding information disclosure and investor relationship, and achieved great results.

The Group seeks to set up a timely and regulated information disclosure regime, and has established the "Rules on the Management of Information Disclosure" which identifies the internal information exchange regime and the respective responsibilities of various departments in terms of information disclosure so as to ensure that the information disclosure is performed in a precise and legal manner and on a timely basis. Besides disclosing information pursuant to the requirement of the regulatory authority, the Company also manages to disclose the concerned information on time via the Company's website.

The Group puts a lot of emphasis on investor's relationship work for which the senior management of the Company is directly responsible, and that investor relationship specialists are usually involved as to maintain close contact with the investors via multiple channels. In 2005, investor relationship related tasks of the Company mainly consist the following:

In July at the time the Company completed acquisition, large-scale press conference, investment analyst meetings and worldwide roadshows were conducted to introduce and promote the Company to investors around the globe.

In December, the Company announced the interim results of the Group for the period from January to September 2005 and conducted roadshows in Hong Kong.

Besides roadshows and results announcement, the Group manages to keep close contacts and smooth communications with investment and analysis institutions such as the individual analysts and fund managers through various means including one-to-one separate conference, telephone conference and small-group conference. Since its re-listing the Company has conducted as many as 200 visits/conversations with the investment and analysis institutions through a variety of ways.

The Group has also invited investors to visit the Company's distribution network and production enterprises for on-site investigation and study.

Corporate Governance Report

Special investor relationship columns are established on the Company's website and updated on a timely basis. Both the investors and analysts can learn about the Company's basic situation and latest news of various developments via the website, that it becomes a well-founded platform for the Company to establish sound communication with the investors.

Through the aforesaid channels, the Company is able to realize an open and honest communication with the investors so that they could have a better view on the Group's operation environment, management ideals, business modes, development strategy and other matters. With this communication, the Company could also understand and constantly improve the investors' concerns.

Internal Controls

The Company attaches great emphasis on internal control, that the establishment of sound internal control regime was one of the core tasks of the Company in the year 2005.

During 2005, the Group undergone persistent substantial alterations regarding the organizational structure of various local and foreign subsidiaries, solidified the internal audit department and its function, established the centralized management regime which integrated various financial fundamentals including onshore and offshore capital, budget, tax affairs, accounting and auditing, performance evaluation, set up professional department specialized in legal management and risk control and standardized the evaluation and control routine, strengthened the strategic decision making regarding investment (upstream) and distribution (downstream), policy implementation and process monitoring organization system and accountable regime, established a professional support center for the purpose of product quality control, agrichemical services and brand marketing, improved the functional management of various aspects including the human resources, strategic planning, logistic management, information technology.

Upon the aforementioned structural changes, the Company conducted centralized review and renewal of the regulation system in compliance with the requirements of the Listing Rules and with reference to the Internal Control and Risk Management-A Basic Framework issued by the Hong Kong Institute of Certified Public Accountants and the Enterprise Risk Management Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the effective accountable regime and through system modification, the Company established a complete process of legal review regime, standardized risk management system, statistical information platform and key procedures on auditing, examination and anti-corruption. Revised regulation system covers all key business and management circulation including the sales and proceeds, purchase and payment, financing management, cash management, connected transaction, performance management and human resources, which suits the current operational and management needs of the Company and is sound, proper and effective. Various revised regulation system has been published for the sake of employee's compliance.

Among all internal control areas besides financial control (which will be further explained in the Director's report section), the Company stressed on internal audit, legal review, risk management and information system.

Corporate Governance Report

Concerning internal audit, the Group has internal audit department, which had authority to perform audit examination on the operations of various business units and internal control procedures of the Company. As to reinforce management supervision, the Company set up respective anti-corruption and reporting administrative system as to strictly prohibit the breach of law, regulation and other prejudice to the Company's interest.

Concerning the legal review, the Company established a legal review framework targeting at contract management, the Seals of the State, delegation management, connected transaction management and litigation cases management, and established relevant back-up system. In order to avoid legal risks, the Company created a standardized contract document database which covered key contracting documents during the Company's operation so as to design standardized contract terms that secured the Company's interest to the greatest extent and to be implemented by various business and management departments.

Concerning risk management, the Company established a complete set of suppliers/customers credit rating system. Index regime was set based on transaction record, financial position, corporate background, industry evaluation, etc, and corporate ranking of the suppliers and customers was provided on a regular basis. The Company also hired international and local credit rating agency to conduct in-depth constant investigation on the liquidity position and creditability of the suppliers and key clients. Based on the above, the Company confirms the annual budget for overall credit resource allocation in accordance with the operation goal and to allocate the resource in terms of respective months, product genre, product department and various suppliers and key clients. Consequently the Company set up specific regulatory system involving evaluation on the suppliers/customers liquidity position and creditability, confirmation on credit-granting policy, authorization of the one-off credit granting transaction, and the entire process consisting of follow-up monitoring of credit-granting transaction, warning indication and management on credit granting and lapsing. In addition, the Company also created and executed the layered alert system emphasizing on key elements such as inventory reserves.

Concerning the management information system, the Company implemented the advanced SAP R/3 system in the business headquarters and 14 branches nationwide, and executed the DMS system (distribution management system) on various major spots on the distribution network. The advanced management information system guaranteed the availability of information for internal control and enhances the accuracy and timeliness of the flow of internal information, which moved ahead the compliance of internal control and secured the distribution-oriented operational strategy and the effective implementation of the internal control and business flow of the Company.

Looking forward, the Company will further optimize the organizational structure, and improve the regulation system and the internal control system, so as to safeguard the shareholder's investments and the Company's assets in every aspect.

Financial Management

Being an essential content of corporate governance, the Company continues to pay attention to the persistent betterment of the financial management. In 2005 the Company continued to promote centralized fund management, improve the performance evaluation system, consolidate the basis of accounting work and push forward the accounting improvement work for the distribution network. All of which found a sound basis of financial management for the gradual development of the Company's business.

Corporate Governance Report

In 2005 the Company integrated the business development and re-arranged the management routine of local or overseas funds, establishing a centralized and integrated funds management system for both overseas and domestic operations. Through the gathering and the usage of funds, all funds of the listed company was streamlined which maximized the economic of scale in respect of finance. In addition, the adoption of the income/expense management discipline of the distribution network funds management guaranteed the security of the capital reserves.

The Company continued to promulgate comprehensive budget management and strictly control the expense and allocate the Company's resource reasonably, while on the other hand, optimized the performance analysis and evaluation regime, combined the advance management ideals and the Company's demand, seeking for the introduction of EVA value management instrument and constantly elevated the supporting function of financial management decision making.

The Company continued to enforce the fundamental work of accounting and through the optimization of SAP system and DMS (Distribution management system); both quality and efficiency of accounting work were enhanced.

Concerning the wholesales network and the investment enterprise financial management, the Company underwent centralized management to all financial staff, such that all financial managers should be appointed and positioned by the headquarters so as to ensure their independence. With the momentum of training increased and the quality of financial discipline enhanced, the human resources of financial management were optimistically equipped in every aspects and regions, that the fundamental network was well-prepared in terms of financial security and business development.

Compliance with Model Code

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiries with all directors, and the directors have confirmed that they had complied with the required standards set out in the Model Code for the year under review.

Compliance with the Code on Corporate Governance Practices

Since 31 August 2005, the Company has established a remuneration committee and a nomination committee. To satisfy the relevant code provisions and the recommended best practices contained in Appendix 14 – Code on Corporate Governance Practices to the Listing Rules (the "Code on Corporate Governance Practices"), the Directors have adopted the terms of reference for the remuneration committee and the nomination committee on 31 August 2005 and adopted a revised terms of reference for the Audit Committee on 8 November 2005.

The Directors believed that the Company has fully complied with the provisions in the Code on Corporate Governance Practices.

Corporate Governance Report

Safety, Health and Environment

The Company has been dedicating huge efforts on corporate safety, occupational health and environmental protection (SHE). And this is performed in align with our corporate strategy upon the planning, implementation and development stages. We uphold the safety culture and belief of “Safety first, Priority in prevention, Supervise according to regulations, Technological advance leads to safety”. We provide environmentally-friendly products with high quality and services to China, in order to achieve simultaneous improvements in both economic benefits and corporate safety, occupational health and environmental protection.

1. To carry out the establishment of the SHE system in upstream joint venture production enterprises

Organized training of OHSMS (Occupational Health and Safety Management System) and related knowledge in subsidiary companies like Sinochem Zhisheng, Sinochem Fuling and started to bring the SHE system in place at those enterprises.

2. Adhere to the policy of “Priority in Prevention” to improve the Safety Warning Mechanism

Through the implementation of Advance Evaluation of Safety Risks and Regular Special Check-ups, we established the Source of Huge Crisis Management System, improved the Safety Warning Mechanism, and enhanced our ability of safety protection. In the year 2005, there had been no large or severe accidents occurred in the production processes in our subsidiary companies.

3. Implement system of accountability to environmental protection to achieve reduction in emissions

The production enterprises implemented systems of accountability to environmental protection, in order to control the total amounts of contaminants being emitted. This helps the production enterprises to achieve the standard level of emissions and to reduce the level of emissions. In the year 2005, there had been no large or severe incidences of contamination or environmental damage.

4. Emphasize on increase of the effective use of energy and other resources, to achieve energy saving and wastage reducing

Due to the advance in technology and innovations in management, the production enterprises improved their level of energy and water savings, as well as the level of consolidated use of resources. At Sinochem Fuling, through the alteration or elimination of highly energy-consuming equipments, water consumption level at the sulphur acidification process was reduced by 50%, and natural gas consumption and electricity consumption at the synthetic ammonia process was reduced by 1% and 6.1%, respectively.