



GROWTH



Directors' Report

The Directors are pleased to present their report together with the audited financial statements of the Group for the year ended 31 December 2005.

Principal Activities

The principal activity of the Company is investment holding.

The principal activities of the Group are the production, import and export, distribution and retail of fertilizer raw materials and finished products, and technical research and development and services relating to the fertilizer related business and products.

An analysis of the Group's performance for the year by business segment is set out in note 6 to the financial statements.

Major Customers and Suppliers

The total sales attributable to the Group's five largest customers were less than 30% of the Group's total sales for year 2005.

The total purchases attributable to the Group's five largest suppliers were 32.96% of the Group's total purchases for year 2005, of which the largest supplier accounted for 14.38%. PotashCorp holds one third of the equity interest in the largest supplier of the Group.

Save for the foregoing, none of the Directors, their associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the five largest customers or suppliers.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 63.

The Directors proposed the payment of final dividend of 2.01 HK cents per share for the financial year ended 31 December 2005, making a total of dividend payment of HK\$116,913,000.

Closure of Register of Members

The Register of Members will be closed from 5 June 2006 to 9 June 2006, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfer must be lodged with the Company's branch registrar in Hong Kong, Secretaries Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on 2 June 2006.

It is expected that the relevant dividend will be payable to those entitled on or about 16 June 2006 subject to the shareholders' approval in the annual general meeting of the Company to be held on 9 June 2006.

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Reserves

Movements in the reserves of the Group and of the Company during the year are set out in note 30 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in note 28 to the financial statements.

Distributable Reserves

As at 31 December 2005, the distributable reserves of the Company amounted to HK\$117,439,000.

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last four financial years is set out on page 135.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Company and the Group are set out in note 15 to the financial statements.

Donations

The Company made no charitable donation for the year ended 31 December 2005.

Principal Properties

Details of the principal properties held for investment purposes are set out on page 136.

Purchase, Sale or Redemption of Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

Major Disclosable Events

On 28 January 2005, the Company announced that, on 28 January 2005, the Company (as purchaser) has entered into an Acquisition Agreement with Sinochem HK, (as vendor) for the acquisition of the entire issued share capital of the China Fertilizer, which was wholly-owned by Sinochem HK. China Fertilizer was established to become the holding company of the Fertilizer Group, which is a leading fertilizer enterprise in the PRC, principally engaged in the sourcing, production and distribution of fertilizers and other agricultural related products in the PRC. The acquisition constitutes a very substantial acquisition and a connected transaction of the Company under Chapters 14 and 14A of the Listing Rules. In addition, as the acquisition would result in a change of control of the Company, it also constitutes a reverse takeover of the Company under Rule 14.06(6) of the Listing Rules and would result in the Company being treated as a new listing applicant under Rule 14.54 of the Listing Rules.

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According to the announcement, the Board also proposed the Capital Reorganization for approval by the Shareholders at the special general meeting. The Capital Reorganization would comprise: the Capital Reduction, the Share Consolidation, an increase in authorized share capital, the Existing Share Premium Cancellation and the Further Share Premium Cancellation.

On 10 June 2005, the Company further announced that in order to maintain the public float of the Company required under Rule 8.08 of the Listing Rules, the Company and Sinochem HK were considering conducting the Offering, which comprised (i) the Strategic Placing, pursuant to which Sinochem HK has agreed to sell shares to the PotashCorp, representing 9.99% of the enlarged issued ordinary share capital of the Company upon completion of the Strategic Placing and had granted the Option to the PotashCorp to acquire further shares, representing 10.01% of the enlarged issued ordinary share capital of the Company upon completion of the Strategic Placing; (ii) the Preferential Offer, pursuant to which Sinochem HK was proposing offering to Qualifying Shareholders the Reserved Shares, representing approximately 13.04% of the enlarged issued ordinary share capital of the Company on Completion and the completion of the Placing; and (iii) the Placing, pursuant to which the Company should enter into one or more placing underwriting agreements with one or more placing agents for the international placement of new ordinary shares to restore the minimum public floating.

On 5 July 2005, the Company further announced that all the resolutions approving the Capital Reorganization, the increase in the authorized share capital of the Company, the Whitewash Waiver, the Non-exempt Continuing Connected Transactions, the specific mandate to allot and issue shares pursuant to the Placing, the renewal of the general mandates to allot and to repurchase shares were duly passed at the special general meeting held on 5 July 2005.

In the Company's announcement dated 27 July 2005, the Directors of the Company and the Directors of Sinochem HK were pleased to announce that the Acquisition and the Offering were completed on 27 July 2005 and the Strategic Placing, the Preferential Offering and the Placing were completed concurrently.

For details, please refer to the Company's circular (the "Circular") dispatched to shareholders dated 13 June 2005 in respect of (among others) very substantial acquisition, reverse acquisition, connected transaction, new listing and whitewash exemption in relation to the Acquisition, the joint announcements of the Company and Sinochem HK dated 28 January, 10 June, 5 July, 18 July, 21 July and 27 July 2005 and the announcement of the Company dated 11 July 2005.

Use of the Proceeds from Placing of Shares

In 2005, the net proceeds from placing of shares amounted to approximately HK\$482 million (for details, please refer to the announcement dated 21 July 2005). As disclosed in the announcement, the Group planned to use approximately 50% and 30% of the proceeds on manufacturing facilities of upstream operations and the expansion of distribution network respectively. The remaining is planned to be used in general working capital and operations. For the year ended 31 December 2005, the amount used in manufacturing facilities of upstream operations and expansion of distribution networks were HK\$246 million and HK\$19 million respectively while the remaining was used in general working capital and operations.

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Connected Transactions

Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies involved in this section shall be referred to those in the Circular dated 13 June 2005.

On 28 January 2005, the Company entered into an agreement with Sinochem HK, a wholly-owned subsidiary of Sinochem Corporation, pursuant to which the Company agreed to acquire from Sinochem HK the entire issued share capital of China Fertilizer for a total consideration of HK\$5,050,000,000 to be satisfied by the issue of ordinary shares of the Company. As Sinochem HK was a substantial shareholder of the Company, the acquisition represented a connected transaction for the Company under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"). Details of the acquisition were disclosed in the circular to shareholders of the Company dated 13 June 2005 ("Circular"). A special general meeting of the Company was convened on 5 July 2005 at which the acquisition was approved by its independent shareholders. The acquisition was completed on 27 July 2005 and the consideration was satisfied in full by the issue of 5,050,000,000 ordinary shares of the Company at the issue price of HK\$1.00 each to Sinochem HK, resulting in Sinochem HK becoming the controlling shareholder of the Company.

The acquisition enabled the Company to become the holding company of China Fertilizer with interests in various subsidiaries and companies principally engaged in the procurement, production and distribution of fertilizers and related products.

Continuing Connected Transactions

Unless otherwise defined in this section or other sections in this annual report, the definitions of the companies involved in this section shall be referred to those in the circular dated 13 June 2005.

The Company has issued *Regulations on the Management of the Connected Transactions*, established stringent internal procedures for approval of the connected transaction, appointed the professionals to review the connected transactions and strictly complied with the relevant requirements under the Listing Rules of the Hong Kong Stock Exchange ("Listing Rules") and any other related laws and regulations.

For the year ended 31 December 2005, the connected transactions of the Company were mainly entered into by the Company and its subsidiaries with Sinochem Corporation, its subsidiaries and associates. As Sinochem Corporation and its subsidiaries (other than the Group) are, and will continue to be, connected persons (as defined in the Listing Rules) of the Company, transactions between the Group and Sinochem Corporation and its subsidiaries (other than the Group) were, and will constitute, connected transactions under the Listing Rules. On 13 June 2005, the Company published a circular ("Circular") regarding, among other things, its acquisition of the Fertilizer Group from the Sinochem HK, a wholly owned subsidiary of Sinochem Corporation. The circular disclosed in detail the information related to the above-said connected transactions of the Company. Further details are set out in the section headed "Information on the Fertilizer Group – Relationship between the Enlarged Group and the Sinochem Group" in the Circular.

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For the year ended 31 December 2005, the connected transactions entered into by the Company and the connected persons under the Listing Rules fell within the following three categories: (1) the continuing connected transactions which required approval by the independent shareholders; (2) the continuing connected transactions which were exempt from independent shareholders' approval requirements but subject to reporting and announcement requirements; (3) the continuing connected transactions which were exempt from reporting, announcement and independent shareholders' approval requirements. The above transactions are set out in detail below:

Subject to Independent Shareholders' Approval Requirements	Term	Currency	Approved Annual Caps of Year 2005	The Actual Transacted Amounts of Year 2005
(A) Import Service Framework Agreement – Sinochem Corporation imports from Sinochem Macao	3 years	USD	1,398,293,000	732,347,295
(A) Import Service Framework Agreement – Sinochem Fertilizer purchases from Sinochem Corporation	3 years	RMB	10,863,000,000	6,460,253,956
(B) Sinochem Macao purchases from US Agri-chem	3 years	USD	52,200,000	No transaction
(C) Sinochem Fertilizer purchases from Sinochem Shandong	3 years	RMB	555,060,000	236,074,273
(D) Sinochem Fertilizer sells to Sinochem Shandong	3 years	RMB	116,407,200	49,148,250
Exempt from Independent Shareholders' Approval Requirements but subject to Reporting and Announcement Requirements	Term	Currency	Approved Annual Caps of the Year 2005	The Actual Transacted Amounts of the Year 2005
(E) Sinochem UK provides supplier relations and logistics services to Sinochem Macao	3 years	USD	2,000,000	1,333,733
(F) US Chem Resources, Inc. provides supplier relations and logistics services to Sinochem Macao	3 years	USD	2,000,000	31,500
(G) Tianjin Port provides port services to Tianjin Beifang	3 years	RMB	40,000,000 (Note 1)	35,051,754
(H) Sinochem Zhisheng provides sales services to the Yongan Zhisheng	15 years	RMB	130,626,000	No transaction
(I) Yongan Zhisheng supplies raw materials to Sinochem Zhisheng	15 years	RMB	54,373,487	50,181,069

Note 1: This annual cap had been refreshed, please refer to the announcement of the Company on 20 December 2005.

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1. Continuing Connected Transactions which Require Approval by Independent Shareholders

The following transactions (A) to (D) were subject to independent shareholders' requirements under the Listing Rules and had been approved by independent shareholders at the special general meeting held on 5 July 2005.

(A) Import Service Framework Agreement

Sinochem Fertilizer, Sinochem Corporation and Sinochem Macao entered into an import service framework agreement (the "Framework Agreement") on 6 June 2005. Pursuant to this agreement, fertilizer products sourced from overseas by Sinochem Macao for Sinochem Fertilizer will first be sold to Sinochem Corporation. Sinochem Corporation, as an approved importer of fertilizer products in the PRC, will import the products sourced by Sinochem Macao and sell them all (except for any such products imported by Sinochem Corporation on behalf of its other customers) to Sinochem Fertilizer. It is the intention of the Company to import through Sinochem Corporation all the fertilizer products sourced from overseas to be sold by the Fertilizer Group. Under the Framework Agreement, the pricing principles for the sale and purchase of fertilizer products between the parties are as follows:

- (i) The price to be paid by Sinochem Corporation to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Corporation will be set in accordance with the prevailing international market price;
- (ii) the price to be paid by Sinochem Fertilizer to Sinochem Corporation for fertilizer products sourced from overseas by Sinochem Macao will be set on a cost basis, that is, the price of the imported fertilizer products acquired by Sinochem Corporation from Sinochem Macao plus product inspection costs, customs and excise handling charges, import duty, value-added tax and a reasonable administration cost (such administration cost is estimated to be approximately RMB 0.1 per tonne of fertilizer products imported) incurred by Sinochem Corporation in relation to the importation of the fertilizers; and
- (iii) the price to be paid by Sinochem Fertilizer to Sinochem Corporation for fertilizer products sourced by Sinochem Corporation direct from overseas will be set in accordance with the domestic wholesale market price.

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(B) Fertilizer Purchase Agreement with US Agri-Chemicals Corporation

US Agri-Chemicals Corporation, an indirectly wholly-owned subsidiary of Sinochem Corporation, entered into a purchase agreement with Sinochem Macao on 6 June 2005 for the purchase and supply of fertilizer products. Pursuant to the purchase agreement, Sinochem Macao shall place purchase orders with US Agri-Chemicals Corporation direct as and when Sinochem Macao desires, setting out in each order the quantity and quality of fertilizer products required, price, payment terms, delivery and shipping requirements and other customary instructions relating to the purchase. Sinochem Macao is not obliged to purchase fertilizers from US Agri-Chemicals Corporation. It is stipulated in the agreement that each purchase shall be on normal commercial terms and the price shall be agreed between the parties and determined based on the fair market prices of the relevant products in the international market at the time the purchase order is placed.

(C) Fertilizer Purchase Agreement with Sinochem Shandong

Sinochem Shandong entered into a fertilizer purchase agreement with Sinochem Fertilizer on 6 June 2005. Sinochem Shandong is held as to 60 % by Sinochem Corporation. The agreement has a term not exceeding three years, commencing on the date it was entered into and expiring on 31 December 2007. Sinochem Fertilizer may request that Sinochem Shandong enters into a new purchase agreement with it on the same terms upon the expiry of the current agreement.

Pursuant to this agreement, Sinochem Shandong has granted to Sinochem Fertilizer an exclusive right to sell its fertilizer products in the PRC, and shall sell all its fertilizer products to Sinochem Fertilizer at the fair market price in the PRC at the time the purchase plan is submitted. Sinochem Shandong shall not, and will not grant any right to any third party to, sell any of its fertilizer products in the PRC during the term of the agreement. The agreement does not contain any provision obliging Sinochem Fertilizer to purchase fertilizer products from Sinochem Shandong.

(D) Fertilizer Supply Agreement with Sinochem Shandong

Sinochem Fertilizer entered into a fertilizer supply agreement with Sinochem Shandong on 6 June 2005. The agreement has a term not exceeding three years, commencing on the date it was entered into and expiring on 31 December 2007.

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Pursuant to this agreement, Sinochem Fertilizer shall supply potash fertilizers to Sinochem Shandong. Sinochem Shandong shall place a purchase order with Sinochem Fertilizer two months in advance of a purchase, and Sinochem Fertilizer shall reply to Sinochem Shandong within 15 business days of each purchase order. The price of the fertilizers shall be their fair market price in the PRC at the time the purchase order is placed. Sinochem Fertilizer shall deliver the fertilizers ordered to Sinochem Shandong upon full payment of the relevant price.

Pursuant to the supply agreement, Sinochem Fertilizer may request that Sinochem Shandong enters into a new supply agreement with it on the same terms upon the expiry of the current agreement.

2. Connected Transactions Exempt from Independent Shareholders' Approval Requirements

The following transactions (E) to (I) were exempt from the independent shareholders' approval requirement but subject to reporting and announcement requirements under the Listing Rules.

(E) Service Agreement with Sinochem (United Kingdom) Limited

Sinochem (United Kingdom) Limited is an indirectly wholly-owned subsidiary of Sinochem Corporation. Sinochem (United Kingdom) Limited entered into an agreement with Sinochem Macao on 6 June 2005. The agreement has a term not exceeding three years, commencing on 1 April 2005 and expiring on 31 December 2007.

Pursuant to the agreement, Sinochem (United Kingdom) Limited shall provide local supplier relations and logistics services to Sinochem Macao in Europe at cost (which mainly includes salaries and employee benefits, office rent, repair and maintenance, utilities, insurance and other administrative costs). The fee payable by Sinochem Macao shall be US\$2 (equivalent to RMB16.54) per tonne of products which Sinochem Macao purchased from its suppliers and in respect of which Sinochem (United Kingdom) Limited has provided services. Sinochem (United Kingdom) Limited and Sinochem Macao may by agreement in writing adjust the fee payable in accordance with changes in operation expenses of Sinochem (United Kingdom) Limited.

(F) Service Agreement with US Chem Resources, Inc.

US Chem Resources, Inc. is an indirectly wholly-owned subsidiary of Sinochem Corporation. US Chem Resources, Inc. entered into an agreement with Sinochem Macao on 6 June 2005. This agreement has a term not exceeding three years, commencing on the date it was entered into and expiring on 31 December 2007.

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Pursuant to the agreement, US Chem Resources, Inc. shall provide local supplier relations and logistics services to Sinochem Macao in the United States at cost (which mainly includes salaries and employee benefits, office rent, repair and maintenance, utilities and other administrative costs). The fee payable by Sinochem Macao shall be US\$ 2 (equivalent to RMB16.54) per tonne of products Sinochem Macao purchased from its suppliers and in respect of which US Chem Resources, Inc. has provided service.

(G) Port services provided by Tianjin Port No. 4 Stevedoring Company (“Tianjin Port”) to Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited (“Tianjin Beifang”)

Tianjin Port and Tianjin Beifang entered into a service agreement dated 16 May 2005. The agreement has a term not exceeding 3 years commencing on the date it was entered into and expiring on 31 December 2007. Pursuant to this agreement, Tianjin Port shall provide logistics services to Tianjin Beifang in return for standard fees at which Tianjin Port charges all its customers.

(H) Sales service provided by Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited to Yongan Zhisheng Chemical Company Limited

Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited entered into an agreement with Yongan Zhisheng Chemical Company Limited on 28 July 2002 under which Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited agreed to sell all the urea for agricultural use produced by Yongan Zhisheng Chemical Company Limited on the latter's behalf. The agreement has a term of 15 years, commencing on the date it was entered into.

Pursuant to the agreement, Yongan Zhisheng Chemical Company Limited shall not sell any urea for agricultural use to other third parties from the date of the agreement. Sinochem Zhisheng has the right to determine the price of urea for agricultural use it sells on behalf of Yongan Zhisheng Chemical Company Limited on a reasonable and timely basis according to market conditions. Yongan Zhisheng Chemical Company Limited may supervise the pricing process. Yongan Zhisheng Chemical Company Limited pays Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited a fee equal to not more than 0.5 % of the price Sinochem Zhisheng sold the urea for agricultural use at. Pursuant to the agreement, Yongan Zhisheng will deliver urea for agricultural use to Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited upon receipt of the purchase price net of the fee due and payable by Yongan Zhisheng Chemical Company Limited to Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited (“Net Purchase Price”). Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited shall bear the economic loss if the sales revenue received by Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited falls short of the purchase price paid to Yongan Zhisheng Chemical Company Limited.

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(I) **Supply of raw materials by Yongan Zhisheng Chemical Company Limited to Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited**

Yongan Zhisheng Chemical Company Limited entered into an agreement with Sinochem Fertilizer Company Limited and Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited on 28 July 2002 under which Yongan Zhisheng Chemical Company Limited agreed to supply (gas ammonia, molten urea solution and powdery material) ("Specified Raw Materials") to Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited and to use its best endeavours to help Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited procure other raw materials ("Other Raw Materials"). The agreement has a term of 15 years, commencing on the date it was entered into.

Specified Raw Materials: Pursuant to the agreement, Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited shall notify Yongan Zhisheng Chemical Company Limited on a monthly basis the types, quantity and standard of Specified Raw Materials it requires for the following month, and Yongan Zhisheng Chemical Company Limited shall supply all the Specified Raw Materials required by Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited unless affected by the maintenance or repair of its equipment. The price of the Specified Raw Materials shall be the actual cost of supply of such materials to Yongan Zhisheng Chemical Company Limited plus tax charges. Yongan Zhisheng Chemical Company Limited also agreed to bear the cost of technological improvement and adjustment of techniques for the purposes of meeting Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited's requirements in respect of molten urea solution. Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited shall pay Yongan Zhisheng Chemical Company Limited on a monthly basis for the Specified Raw Materials purchased in the previous month.

Other Raw Materials: Yongan Zhisheng Chemical Company Limited agreed to use its best endeavours to help Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited procure, at a favorable price, other raw materials the latter requires for its production.

3. **Continuing Connected Transactions Exempt from Reporting, Announcement and Independent Shareholders' Approval Requirements**

For the year ended 31 December 2005, the Group also entered into the following connected transactions which were exempt from reporting, announcement and independent shareholders' approval requirements:

- (1) Information Technology Services Agreement dated 6 June 2005 between Sinochem Corporation and the Company, under which Sinochem Corporation agreed to provide and to procure the relevant service providers (which are all members of the Sinochem Group) to provide mainframe custody, server maintenance and computer repair services to members of the Enlarged Group free of charge.

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- (2) Trademark License Agreements dated 6 June 2005 between Sinochem Corporation and 15 subsidiaries of the Company under which Sinochem Corporation has granted a license, on a non-exclusive and non-transferable basis, to each licensee to use in the PRC certain trademarks registered in Sinochem Corporation's name.
- (3) Lease Agreement dated 6 June 2005 between Sinochem International Properties Hotel Management Company Limited and Sinochem Fertilizer in relation to two units in an office building in Beijing.
- (4) Two Management Agreements In Respect Of Sinochem Group's Joint Venture Interests dated 30 March 2005 between Sinochem Corporation and Sinochem Fertilizer, under which Sinochem Corporation has entrusted Sinochem Fertilizer to manage the rights in its 60% and 40% equity interests in Sinochem Shandong and Tianji JV, respectively.
- (5) Yongan Zhisheng Chemical Company Limited entered into an agreement with Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited on 28 July 2002 under which the former agreed to provide water, electricity, gas and steam to the latter.
- (6) Yongan Zhisheng Chemical Company Limited entered into a trademark licence agreement with Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited on 25 August 2003 under which it has licensed the use of a trademark registered in its name to Fujian Sinochem Zhisheng Chemical Fertilizer on a nonexclusive and non-transferable basis and free of charge.
- (7) Tianjin North Sea Industry Company Limited and Tianjin Beifang entered into a lease agreement on 21 May 2004. Pursuant to the lease agreement, Tianjin North Sea Industry Company Limited has leased an office space of approximately 140 square meters to Tianjin Beifang at an annual rent of RMB50,000. Tianjin North Sea Industry Company Limited has also leased a sedan to Tianjin Beifang for the latter's business use at a monthly rent of RMB3,000.

Further details of the above transactions were disclosed in the Circular dated 13 June 2005.

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4. By the issuing date of this annual report, the Company had the following connected transactions subject to reporting, announcement requirements but exempt from independent shareholders' approval

(1) Logistics Service Continuing Connected Transactions between Sinochem Fertilizer Company Limited and Tianjin North Sea Industry Company Limited, between Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited and Tianjin North Sea Industry Company Limited

On 21 February 2006, Sinochem Fertilizer and Tianjin Beifang entered into the SF Service Agreement and the Tianjin Beifang Service Agreement with Tianjin North Sea Industry Company Limited respectively. The SF Service Agreement and the Tianjin Beifang Service Agreement, when aggregated as if they were one transaction pursuant to the Listing Rules, constitute a continuing connected transaction of the Company under the Listing Rules and are subject to the reporting and announcement requirements set out in the Listing Rules, but are exempt from the independent shareholders' approval requirements under the Listing Rules.

The nature of the above transactions is the fertilizer logistics service provided by Tianjin North Sea Industry Company Limited to Sinochem Fertilizer and Tianjin Beifang in Tianjin Port.

The annual caps for the above transactions for the three years ending 31 December 2008 are RMB84,000,000, RMB126,000,000 and RMB170,000,000, (equivalent to approximately HK\$80,769,230, HK\$121,153,846 and HK\$163,461,538).

For details of the above transactions, please refer to the announcement of the Company issued on 27 February 2006.

(2) Continuing Connected Transactions of the Import of Canadian Potash

PotashCorp is a substantial shareholder, and therefore a connected person, of the Company. The following transactions between Canpotex Limited ("Canpotex"), its associate (as defined in the Listing Rules) and a member of the Group constitute continuing connected transactions for the Company.

The transactions relate to the supply of the Canadian potash by Canpotex to Sinochem Macao, an indirect wholly-owned subsidiary of the Company.

The transactions between Sinochem Macao and Canpotex are expected to continue during the current year ending date 31 December 2006. The annual caps for such transactions for the year ending 31 December 2006, is US\$432,400,000 (equivalent to about HK\$3,372,720,000). Details were disclosed in the Company's announcement dated 9 March 2006.

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5. Confirmations from Independent Non-Executive Directors and Auditors

In the opinion of the independent non-executive directors, the continuing connected transactions for the year ended 31 December 2005 were entered into by the Group:

- (i) in the ordinary and usual course of its business;
- (ii) either on normal commercial terms or, where there are no sufficient comparables, on terms no less favorable than the terms the Company could have obtained from an independent third party; and
- (iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company.

In respect of the continuing connected transactions, the Board of Directors has received a letter from the Auditors of the Company in accordance with its agreed upon procedures, that the continuing connected transactions:

- (i) have received the approval of the Company's Board of Directors;
- (ii) were in accordance with the pricing policy if transactions involve the provision of goods and services;
- (iii) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and
- (iv) have not exceeded their respective cap limits disclosed in previous announcement(s) .

The Contracts of Significance between the Company and the Controlling Shareholder

Sinochem Corporation is the ultimate controlling shareholder of the Company. The contracts of significance between Sinochem Corporation and the Company mainly include the agreements in relation to the connected transactions arising out of the reverse acquisition of the Fertilizer Group by the Company and the Non-competition Undertaking Sinochem Corporation has provided to the Company.

With regard to the arrangements for the connected transactions respectively, the Company has provided detailed information in the section headed "Connected Transactions" in the Directors' Report.

The Non-competition Undertaking has been provided by the Non-competition Agreement entered into by Sinochem Corporation and the Company on 6 June 2005. Pursuant to such Agreement, Sinochem Corporation will not and will procure that its subsidiaries will not, without the prior consent of the Company, develop, operate or assist in operating, participate in or conduct any business which may compete with the Fertilizer Business (Except those disclosed in the Circular dated 13 June 2005), either on its own or jointly with or on

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behalf of any other person or company in the PRC. Meanwhile, if any opportunity of new business same as or similar to the Fertilizer Business arises, Sinochem Corporation shall promptly notify the Company and, within 7 days after such notification, procure that the terms and conditions of such opportunity should be provided to the Company and should be reasonably acceptable by the Board of the Company but should not be less favorable than those provided to Sinochem Corporation. In addition, during the term of the Non-competition Agreement, the Company has been granted the option and a right of first refusal to purchase from Sinochem Corporation at a fair market value any interest or shareholding in its subsidiaries or invested companies that falls within the Company's principal business.

Further details regarding the Non-competition Undertaking are set out in the section headed "Information on the Fertilizer Group – Relationship between the Enlarged Group and the Sinochem Group" in the Circular dated 13 June 2005.

Directors

The directors during the year and up to the date of this report were as follows:

Executive Directors

Mr. Du Ke Ping (<i>Chief Executive Officer</i>)	(appointed on 27 July 2005)
Mr. Harry Yang	(appointed on 6 March 2006)
Ms. Chen Hao	(resigned on 6 March 2006)
Mr. Chu Yu Lin, David	(resigned on 31 August 2005)
Mrs. Chu Ho Miu Hing	(resigned on 31 August 2005)

Non-Executive Directors

Mr. Liu De Shu (<i>Chairman</i>)	(redesignated from executive director to non-executive director on 27 July 2005)
Mr. Song Yu Qing (<i>Deputy Chairman</i>)	(redesignated from executive director to non-executive director on 27 July 2005)
Dr. Chen Guo Gang	(appointed on 27 July 2005)
Dr. Stephen Francis Dowdle	(appointed on 27 July 2005)
Mr. Wade Fetzer III	(appointed on 27 March 2006)

Independent Non-Executive Directors

Mr. Ko Ming Tung, Edward
Dr. Li Ka Cheung, Eric
Dr. Tang Tin Sek

Pursuant to Clause 87(1) of the Company's Bye-laws, Mr. Liu De Shu, Mr. Ko Ming Tung, Edward, and Dr. Tang Tin Sek will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Pursuant to Clause 86(2) of the Company's Bye-laws, the term of office of Mr. Harry Yang and Mr. Wade Fetzer III will expire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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Directors' Service Contracts

The Board of Directors comprises 10 directors. Except two executive directors, none of the other directors has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

Mr. Du Ke Ping, Executive Director and CEO of the Company, has entered into a director's service contract with the Company for a term of 3 years, with effect from 28 July 2005, subject to that (i) the service contract may be terminated prior to its expiry if either of Mr. Du or the Company serves two months' prior notice to the other in writing; (ii) the service contract may be terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the service contract. Besides, Mr. Du Ke Ping is subject to retirement by rotation and is eligible for re-election at annual general meetings of the Company in future in accordance with the Company's Bye-laws. Pursuant to the contract, Mr. Du Ke Ping is entitled to receive a fixed director's fee of HK\$1,133,688 per annum from the Company, plus a housing allowance of not more than HK\$1,200,000 per annum, which is paid on out-of-pocket basis. The above terms are subject to review and adjustment by the Remuneration Committee. Should the Company terminate the contract prior to its expiry, Mr. Du Ke Ping is entitled to receive a cash compensation equivalent to 11 months' of his annual fixed director's fee, save for circumstances described in Item (ii) set out above. Pursuant to the contract, Mr. Du Ke Ping is also entitled to receive a bonus to the amount between HK\$566,844 and HK\$1,700,532, the actual amount of which will be figured out based on the results of the Company in the relevant year, and subject to adjustment of not more than 20% by the Remuneration Committee.

Mr. Harry Yang, Executive Director and Deputy General Manager of the Company, has entered into a director's service contract with the Company for a term of 3 years, with effect from 6 March 2006, subject to that (i) the service contract may be terminated prior to its expiry if either of Mr. Yang or the Company serves two months' prior notice to the other in writing; (ii) the service contract may be terminated by the Company in case of bankruptcy, diseases and any other significant faults of a director as described in the service contract. Besides, the term of office of Mr. Harry Yang will expire at the forthcoming annual general meeting of the Company and is then eligible for re-election in accordance with the Company's Bye-laws. He is then subject to retirement by rotation and is eligible for re-election at annual general meetings of the Company in future. Mr. Harry Yang is entitled to receive a fixed director's fee of HK\$ 1,050,000 per annum from the Company, plus a housing allowance of not more than HK\$ 720,000 per annum, which is paid on out-of-pocket basis. The above terms are subject to review and adjustment by the Remuneration Committee. Should the Company terminate the contract prior to its expiry, Mr. Harry Yang is entitled to receive a cash compensation equivalent to 11 months' of his annual fixed director's fee, save for circumstances described in Item (ii) set out above. Pursuant to the contract, Mr. Harry Yang is also entitled to receive a bonus to the amount between HK\$425,000 and HK\$1,275,000, the actual amount of which will be figured out based on the operation results of the Company in the relevant year, and subject to adjustment of not more than 20% by the Remuneration Committee.

For details of the share options granted to the directors, please refer to the relevant sections of the Directors' Report.

Directors' Report

Directors' Interests in Contracts of Significance

Save for the above directors' contracts, neither the Company nor any of its subsidiaries had entered, at the end of the year or at any time during the year, into any contract of significance which is still in force, and in which a director of the Company had a material interest, whether directly or indirectly.

Directors' Interests in Competing Business

During the year and up to the date of this report, Mr. Du Ke Ping, an executive director and chief executive officer of the Company, is also a director of Sinochem Shangdong and US Agri-Chemicals Corporation, a 60% and 100% subsidiaries of Sinochem Corporation respectively. Mr. Harry Yang, who was appointed an executive director of the Company with effect from 6 March 2006, was also a director of US Agri-Chemicals Corporation during the year ended 31 December 2005.

As described in the circular dated 13 June 2005, Sinochem Shangdong and US Agri-Chemicals Corporation are members of the Sinochem Group for which the former continues to be engaged in the production of fertilizers while the latter ceased its operations since November 2005. As at the date of this report, four out of eleven of the directors of Sinochem Shangdong are also directors or members of the senior management of the Group and the remaining directors of Sinochem Shangdong do not hold any position or assume any role in the Group. As at the date of this report, save for Mr. Du Ke Ping and Mr. Harry Yang, none of the directors of US Agri-Chemicals Corporation held any position or assume any role in the Group.

Save as disclosed, as at the date of this report, none of the directors of the Company and their respective associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

Profiles of Directors and Senior Management

Profiles of directors and senior management are set out on pages 14 to 18.

Directors' Interests in the Shares

As at 31 December 2005, none of the directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") which (i) had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive were taken or deemed to have under such provisions of the SFO) or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

Save as disclosed under the heading "The Share Option Scheme and Its Granting", at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

Directors' Report

For details of the share options granted to the directors in 2006, please refer to the relevant sections of the Directors' Report.

Substantial Shareholders' Interests in the Shares and Underlying Shares of the Company

As at 31 December 2005, the following persons (other than directors and chief executive of the Company) had interests or a short position in the shares and underlying shares of the Company which were recorded in the register of interests required to be maintained by the Company pursuant to section 336 of the SFO:

Name of Shareholders	Long Positions		Short Positions	
	Number of shares involved	Approximate percentage of shareholding	Number of shares involved	Approximate percentage of shareholding
Sinochem Hong Kong (Group) Company Limited	4,470,453,301 (Note 1)	76.97%	581,375,779 (Note 2)	10.01%
Sinochem Corporation (Note 3)	4,470,453,301	76.97%	581,375,779	10.01%
PotashCorp	5,051,829,080 (Note 4)	86.98%	—	—

Notes:

- (1) The number of ordinary shares consists of (a) 3,890,239,114 ordinary shares owned by Sinochem HK and (b) 580,214,187 ordinary shares owned by PotashCorp in which Sinochem HK is deemed to have an interest under the provisions of the SFO.
- (2) The 581,375,779 ordinary shares are subject to an option granted by Sinochem HK to PotashCorp pursuant to which PotashCorp may exercise the option to purchase up to such number of ordinary shares from Sinochem HK.
- (3) Sinochem Corporation is taken to be interested and has a short position in the ordinary shares of the Company in which Sinochem HK, its wholly-owned subsidiary, holds an interest and a short position respectively.
- (4) The number specified consists of (a) 580,214,187 ordinary shares owned by PotashCorp, (b) 581,375,779 ordinary shares in which PotashCorp is taken to be interested in pursuant to the option referred to in Note 2 above; and (c) 3,890,239,114 ordinary shares owned by Sinochem in which PotashCorp is deemed to have an interest under sections 317 and 318 of the SFO.

Save for the aforesaid, as at 31 December 2005, the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

Directors' Report

As at the date of this Report, the following persons (other than directors and chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company which were recorded in the register required to be maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Long positions		Short positions	
	Number of shares involved	Approximate percentage of shareholding	Number of shares involved	Approximate percentage of shareholding
Sinochem Hong Kong (Group) Company Limited	4,270,453,301 <i>(Note 1)</i>	73.53%	–	–
Sinochem Corporation <i>(Note 2)</i>	4,270,453,301	73.53%	–	–
PotashCorp	4,270,453,301 <i>(Note 3)</i>	73.53%	–	–

Notes:

- (1) The number of ordinary shares consists of (a) 3,108,863,335 ordinary shares owned by Sinochem HK and (b) 1,161,589,966 ordinary shares owned by PotashCorp in which Sinochem HK is deemed to have an interest under the provisions of the SFO.
- (2) Sinochem Corporation is taken to be interested in the ordinary shares of the Company in which Sinochem HK, its wholly-owned subsidiary, holds an interest.
- (3) The number specified consists of (a) 1,161,589,966 ordinary shares owned by PotashCorp, (b) 3,108,863,335 ordinary shares owned by Sinochem HK in which PotashCorp is deemed to have an interest under sections 317 and 318 of the SFO.

Public Float

Based on information publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company has sufficient public float exceeding 25% of its issued shares as required by the Listing Rules.

Pre-emptive Rights

There has no requirement for pre-emptive rights set out in the Bye-laws of the Company and the laws of Bermuda which result in new shares offering made by the Company to the existing shareholders by proportion.

Directors' Report

The Share Option Scheme and Its Granting

The share option scheme adopted by the Company on 11 September, 1996 (the "Old Share Option Scheme") was terminated on 22 August 2002. Pursuant to the Old Share Option Scheme, some share options granted to eligible participants have expired during the year. The movements in share options during the year are as follows:

Grantees	Grant date	Exercisable period	Exercise price (Note 2) (HK\$)	Number of share options (Note 2)		
				Held at 1 January 2005	Lapsed during the year	Held at 31 December 2005
Mr. Chu Yu Lin, David (Note 1)	1 August 2001	1 February 2002- 31 January 2005	0.255	5,800,000	5,800,000	0
Mrs. Chu Ho Miu Hing (Note 1)	1 August 2001	1 February 2002- 31 January 2005	0.255	5,800,000	5,800,000	0
Employees	8 December 2001	8 June 2002- 7 June 2005	0.378	2,000,000	2,000,000	0

Notes:

- (1) Former directors of the Company
- (2) The exercise price and the number of shares subject to options shown above have not been adjusted to reflect the effect arising from capital reduction and share consolidation which have taken place during the period since these options had lapsed before capital reduction and share consolidation were effected.

On 26 August, 2002, the Company adopted a new share option scheme ("New Share Option Scheme") to replace the existing share option scheme. From the effective date of the New Share Option Scheme to the balance sheet date, no share option has been granted.

Directors' Report

Subsequent to the balance sheet date, the Company, pursuant to the New Share Option Scheme, offered share options to the eligible participants in January 2006, and the details are as follows:

Grantees	Exercisable period (Note 3)	Exercise price (HK\$)	Number of share options (Note 3)
Mr. Liu De Shu (Note 1)	23 January 2008- 22 January 2012	1.672	2,033,000
Mr. Song Yu Qing (Note 1)	23 January 2008- 22 January 2012	1.672	1,582,000
Mr. Du Ke Ping (Note 2)	23 January 2008- 22 January 2012	1.672	5,213,000
Dr. Chen Guo Gang (Note 1)	23 January 2008- 22 January 2012	1.672	1,582,000
Mr. Harry Yang (Note 2)	23 January 2008- 22 January 2012	1.672	1,582,000
Employees	23 January 2008- 22 January 2012	1.672	18,018,000

Notes:

- (1) Non-executive Director of the Company
- (2) Executive Director of the Company
- (3) During the period between 23 January 2008 and 22 January 2009, only two-third of the options are exercisable and the remaining balance of options are exercisable thereafter up to 22 January 2012.

Compensation Policy

Our compensation policy comprises basic salary, annual bonus, benefits and long-term incentive award. The objective of the Company is to associate the interests of key employees with the performance of the Company and the interests of shareholders, as well as achieving balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Company also aims at maintaining the competitiveness of the overall compensation. The level of cash compensation varies with importance of duties, giving bonus in connection with performance directly proportional to the importance of duties, so as to ensure that the Company can recruit, retain and motivate high-calibre candidates required for the development of the Company and avoid excess reward. The Company reviews its compensation policy annually and engages professional intermediary if necessary so as to ensure the competitiveness of the compensation policy which, in turn, would support the business growth of the Company. No individual employee shall have the right to determine his/her own compensation.

Housing Funds

The Company contributes to housing funds for its employees strictly in compliance with relevant regulations of the region where the Company operates.

Directors' Report

Auditors

Deloitte Touche Tohmatsu acted as the auditors of the Company in respect of the financial year ended 31 March 2005. At the annual general meeting of the Company held on 31 August 2005, Deloitte Touche Tohmatsu retired as the auditors of the Company and PricewaterhouseCoopers was appointed as the new auditors of the Company.

By Order of the Board

Liu De Shu

Chairman

Hong Kong, 10 April 2006