1 General information

Sinochem Hong Kong Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") are engaged in sale and production of fertilizers and agricultural related products.

The Company is a limited liability company incorporated in Bermuda. The address of its principal office is Units 4601-4610, 46th Floor, Office Tower, Convention Plaza, 1 Harbour Road, Wanchai, Hong Kong.

The Company has its listing on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements have been approved for issue by the Board of Directors on 10 April 2006.

2 Reverse acquisition and change of financial year end date

(a) Reverse acquisition

On 28 January 2005, the Company entered into an acquisition agreement with Sinochem Hong Kong (Group) Company Limited ("Sinochem HK") in respect of the acquisition of the entire shareholding of China Fertilizer (Holdings) Company Limited ("China Fertilizer"), a wholly-owned subsidiary of Sinochem HK, for a consideration of HK$5,050 million (the "Transaction"). China Fertilizer and its subsidiaries (collectively the "Fertilizer Group") are engaged in the sale and production of fertilizers and agricultural related products in the People's Republic of China ("PRC").

The consideration for the acquisition of HK$5,050 million was satisfied by the allotment and issue of 5,050 million new shares of the Company ("Consideration Shares") to Sinochem HK. Subsequent to the completion date of the Transaction, the Company and its subsidiaries (the "Group") are principally engaged in the sale and production of fertilizers and agricultural related products.

The Transaction has been accounted for as a reverse acquisition under Hong Kong Financial Reporting Standard ("HKFRS") 3 "Business Combinations" since the issuance of the Consideration Shares resulted in Sinochem HK becoming the controlling shareholder of the Company. For accounting purposes, in preparing these consolidated financial statements, the Fertilizer Group is treated as the acquirer while the Company and its subsidiaries prior to the Transaction, which are mainly engaged in property investment (referred thereafter to as the "Property Group"), were deemed to have been acquired by the Fertilizer Group. These consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Fertilizer Group and accordingly:

(i) the assets and liabilities of the Fertilizer Group are recognised and measured in these consolidated financial statements at their historical carrying values prior to the Transaction;

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Notes to the Financial Statements

2 Reverse acquisition and change of financial year end date (Continued)

(a) Reverse acquisition (Continued)

(ii) the retained profits and other equity balances of the Fertilizer Group prior to the Transaction are retained in the equity balances in these consolidated financial statements;

(iii) the amount recognised as issued equity in these consolidated financial statements, which represents the share capital and share premium in the consolidated balance sheet of the Group, is the sum of the issued share capital of China Fertilizer (the legal subsidiary), the Fertilizer Group's deemed cost of acquisition of the Property Group, and the subsequent issue of new shares of the Company upon completion of the Transaction (Note 28 below). However, the equity structure, being the number and type of shares issued, reflects the equity structure of the Company (the legal parent) including the new shares issued in effecting the Transaction; and

(iv) the comparative information presented in these consolidated financial statements is that of the Fertilizer Group.

In preparing these consolidated financial statements, the Fertilizer Group has applied the purchase method to account for the acquisition of the Property Group. In applying the purchase method, the separately identifiable assets and liabilities of the Property Group were recorded in the consolidated balance sheet at their fair values at the completion date of the Transaction. In addition, goodwill arising on the acquisition of Property Group of approximately HK$356,503,000, being the excess of the cost of acquisition of the Property Group over the sum of the fair values of the separately identifiable assets less liabilities of the Property Group, was recorded. The results of the Property Group have been consolidated to the Group's consolidated financial statements since the completion date of the Transaction. Further details of the impact of the acquisition are set out in note 38 "Business combinations" below.

(b) Change of financial year end date

Pursuant to the approval at the special general meeting of shareholders on 5 July 2005, the Company changed its financial year end date from 31 March to 31 December to conform with the financial year end date of the Fertilizer Group.

3 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements of Sinochem Hong Kong Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by, the revaluation of available-for-sale financial assets, financial assets and financial liabilities at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 5.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets

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Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.1 Basis of preparation (Continued)

HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 (Amendment)	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40	Investment Property
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 31, 33 and HKAS-Int 21 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the presentation of minority interests, share of net after-tax results of jointly controlled entities and other disclosures

– HKASs 2, 7, 8, 10, 16, 21, 23, 27, 31, 33 and HKAS-Int 21 had no material effect on the Group's policies.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The following is a summary of significant changes to the principal accounting policies of the Group as a result of the adoption of the above HKFRS.

(i) The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of land use rights from property, plant and equipment to a separate account of land use rights. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

(ii) The adoption of HKAS 32 and HKAS 39 has resulted in the change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until 31 December 2004, unlisted investments of the Group were classified as investment securities and stated in the consolidated balance sheet at cost less any provision for impairment losses. In accordance with HKAS 39, these investments were re-classified as available-for-sale financial assets and stated in the consolidated balance sheet at fair value, with subsequent changes in value reflected as reserve movements.

In addition, the Group's discounted bills with recourse have been accounted for as "bills discounted to banks" and correspondingly collateralised "bank advances for discounted bills" prospectively on or after 1 January 2005, as the financial asset derecognition conditions as stipulated in HKAS 39 have not been fulfilled.

3 Summary of significant accounting policies (Continued)

3.1 Basis of preparation (Continued)

(iii) The Group newly adopted the revised HKAS 40 to account for the investment properties acquired through the deemed acquisition of the Property Group. The changes in fair values of investment properties are recorded in the income statement as part of "other gains, net".

(iv) The Group newly adopted the revised HKFRS 3, HKASs 36 and 38 to account for the goodwill arising from the deemed acquisition of the Property Group. Goodwill is not subject to amortisation and is tested annually for impairment, as well as when there is indication of impairment, and is carried at cost less accumulated impairment losses.

All changes in the accounting policies have been made in accordance with the transitional provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investment securities. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005; and

– HKFRS 3 – prospectively after the adoption date.

The effects of the changes in the above accounting policies on the financial statements of the Group are summarised below:

	Adoption of HKAS 17		**Adoption of HKAS 39**
	2005	2004	**2005**
	HK$'000	*HK$'000*	***HK$'000***
Decrease in property, plant and equipment	**(41,924)**	(42,659)	**–**
Increase in land use rights	**41,924**	42,659	**–**
Decrease in investment securities	**–**	–	**(14,462)**
Increase in available-for-sale financial assets	**–**	–	**14,462**
Increase in bills discounted to banks	**–**	–	**1,417,893**
Increase in bank advances for discounted bills	**–**	–	**1,417,893**

There was no impact on basic earnings per share as a result of the adoption of HKASs 17 and 39.

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Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.1 Basis of preparation (Continued)

The Group has not early adopted the following new standards or interpretations which are relevant to the operations of the Group and are effective for accounting periods commencing on or after 1 January 2006. It is expected that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HKFRS-Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds

3.2 Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

3 Summary of significant accounting policies (Continued)

3.2 Consolidation (Continued)

(a) *Subsidiaries (Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

(b) *Transactions with minority interests*

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) *Jointly controlled entities*

A jointly controlled entity is the result of contractual arrangements whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The Group's interests in jointly controlled entities are accounted for using the equity method of accounting and are initially recognised at cost.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

3 Summary of significant accounting policies (Continued)

3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.4 Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. The functional currencies of the Group's subsidiaries in PRC and Macao are Renminbi and US dollars, respectively.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at closing exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) *Group companies*

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

3 Summary of significant accounting policies (Continued)

3.4 Foreign currency translation (Continued)

(c) Group companies (Continued)

On consolidation, exchange differences arising from the translations of the net investments in foreign operations are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

3.5 Property, plant and equipment

Property, plant and equipment, except for assets under construction, are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and that cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Buildings	20 – 30 years
Plant, machinery and equipment	10 years
Motor vehicles	8 years
Furniture and fixtures	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.8).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the income statement.

Assets under construction represent buildings, plant and machinery under construction or pending installation and are stated at cost less accumulated impairment losses. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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3 Summary of significant accounting policies (Continued)

3.6 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Changes in fair value are recognised in the income statement as part of "other gains, net".

3.7 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiaries and jointly controlled entities at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of jointly controlled entities is included in interests in jointly controlled entities. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in which it operates (Note 3.8).

3 Summary of significant accounting policies (Continued)

3.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.9 Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as investment securities and trading securities.

During the year 2004, the Group did not hold any trading securities.

Investment securities were stated at cost less provision for impairment losses.

The carrying amounts of individual investments were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary had occurred, the carrying amount of such securities would be reduced to their fair value. The impairment loss was recognised as an expense in the income statement. This impairment loss was written back to the income statement when the circumstances and events that led to the write downs or write-offs ceased to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

During the year, the Group did not hold any financial assets at fair value through profit or loss and held-to-maturity investments.

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Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.9 Financial assets (Continued)

(a) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

(b) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of investments are recognised on trade-date, being the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are carried at amortised cost using the effective interest method. Available-for-sale financial assets are subsequently carried at fair value.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale and analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of monetary securities classified as available-for-sale and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as ‘gains and losses from investment securities’. Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

3 Summary of significant accounting policies (Continued)

3.9 Financial assets (Continued)

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss (being measured as the difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of trade and other receivables is described in Note 3.11.

3.10 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

Effective from 1 January 2005, the Group revised its inventory costing method for the companies engaging in trading of fertilizers from first-in first-out basis to weighted-average basis. In the opinion of the directors, the weighted-average basis is more appropriate for the Group in the determination of cost of inventories. The effect of the change in accounting estimate is not material to the results of the Group for the years ended 31 December 2004 and 2005.

3.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

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Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.12 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

3.13 Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

3.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Preference shares, which are mandatorily redeemable on a specific date, are classified as liabilities. The dividends on these preference shares are recognised in the income statement as interest expense.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

3.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3 Summary of significant accounting policies (Continued)

3.16 Employee benefits

(a) *Pension obligations*

The Group participates in a number of defined contribution plans in Hong Kong, Macao and the PRC, the assets of which are generally held in separate trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into separate entities. The Group has no legal or constructive obligations to make further payments once the required contributions have been paid, even if the funds do not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) *Profit sharing and bonus plans*

The expected cost of profit sharing and bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

3.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) *Sales of goods*

- wholesale are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

- retail are recognised when a group entity sells a product to the customer. Retail sales are usually in cash.

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3 Summary of significant accounting policies (Continued)

3.17 Revenue recognition (Continued)

(b) *Sales of services*

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) *Rental income*

Rental income is recognised on a straight-line basis according to terms of the leases.

(d) *Interest income*

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) *Dividend income*

Dividend income is recognised when the right to receive payment is established.

3.18 Leases (as the lessee)

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

3.19 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight-line basis over the expected lives of the related assets.

3 Summary of significant accounting policies (Continued)

3.20 Research and development

Research expenditure is expensed as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility, and costs can be measured reliably. Other development expenditures are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

3.21 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.22 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements, if any. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

3.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

4 Financial risk management

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and fair value interest rate risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) *Foreign exchange risk*

The Group mainly operates in the PRC, Hong Kong and Macao. Sales are made to customers in the PRC while purchases are mainly from overseas suppliers as well as suppliers in the PRC. The Group is therefore exposed to foreign exchange risk arising from various currency exposures such as United States Dollars ("USD") and Renminbi ("RMB"), primarily with respect to Hong Kong Dollars ("HK$"). Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

In addition, RMB is not freely convertible into other foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has not used any forward contracts, currency borrowings or other means to hedge its foreign exchange exposure. The Group is able to get sufficient foreign currencies for settlement of the purchases or repatriation of profits declared by the subsidiaries in the PRC to the holding company in Hong Kong.

(b) *Credit risk*

The Group has no significant concentration of credit risk. The carrying amounts of cash and cash equivalents, time deposits, trade and bills receivables, and other current assets except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets. The Group has policies that limit the amount of credit exposure to any financial institutions. The Group also has policies in place to ensure that sales are made to customers with an appropriate credit history and policies on granting different settlement methods to different customers to monitor the credit exposure.

(c) *Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group's primary cash requirements have been for purchases of fertilizer merchandise, materials, machinery and equipment and payments of related debts. The Group finances its working capital requirements through a combination of funds generated from operations and bank borrowings.

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. As at 31 December 2005, over 69% of the Group's borrowings was at fixed rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in note 31.

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

4.2 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, trade and bills receivables, advance payments and other receivables and bills discounted to banks; and financial liabilities including trade and bills payables, receipts in advance and other payables, bank advances for discounted bills and short-term borrowings, approximate their fair values due to their short maturities. The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial assets and financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments. The fair values of non-current borrowings are disclosed in note 31.

5 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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5 Critical accounting estimates and judgements (Continued)

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 3.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (Note 19).

(b) Useful lives and residual value of plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its machinery and equipment. This estimate is based on the historical experience of the actual useful lives and residual value of machinery and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. Management reassesses the estimation at each balance sheet date.

(d) Trade and other receivables

The Group's management determines the provision for impairment of trade and other receivables. This estimate is based on the credit history of its customers and the current market condition. Management reassesses the provision by each balance sheet date.

(e) Income tax expense

The Group is subject to income tax in certain jurisdictions. There are certain transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current income tax and deferred income tax provisions in the period in which such determination is made.

6 Turnover and segment information

The Group is principally engaged in sale and production of fertilizers and agricultural related products. Turnover during the year is as follows:

	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sales from sourcing and distribution	**18,286,893**	11,117,390
Sales from production	**961,772**	719,795
	19,248,665	11,837,185

The Group is organised into two main business segments:

Sourcing and distribution	– sourcing and distribution of fertilizers and agricultural related products
Production	– production and sale of fertilizers

Other group operations comprise mainly provision of rental services which does not constitute a separately reportable segment.

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6 Turnover and segment information (Continued)

(a) Primary reporting format – business segments

The segment information is set out below:

	Sourcing and distribution		Production		Others		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Income statement								
Gross segment sales	**18,333,565**	11,157,340	**1,423,103**	1,006,851	**-**	–	**19,756,668**	12,164,191
Inter-segment sales	**(46,672)**	(39,950)	**(461,331)**	(287,056)	**-**	–	**(508,003)**	(327,006)
Sales	**18,286,893**	11,117,390	**961,772**	719,795	**-**	–	**19,248,665**	11,837,185
Segment results	**955,306**	630,806	**51,866**	55,062	**5,705**	–	**1,012,877**	685,868
Unallocated costs							**(20,485)**	(12,302)
Operating profit							**992,392**	673,566
Finance costs	**(83,005)**	(35,636)	**(27,828)**	(11,479)	**(1,543)**	–	**(112,376)**	(47,115)
Share of results of jointly controlled entities	**-**	–	**49,941**	41,614	**-**	–	**49,941**	41,614
Profit before income tax							**929,957**	668,065
Income tax expense							**(137,533)**	(141,254)
Profit for the year							**792,424**	526,811
Other information								
Capital expenditure	**338,289**	6,536	**296,482**	49,475	**16**	–	**634,787**	56,011
Depreciation and amortisation	**5,188**	2,909	**46,018**	18,692	**33**	–	**51,239**	21,601
(Write-back of provision)/ provision for impairment of receivables	**(46)**	1,073	**(21)**	(3,904)	**-**	–	**(67)**	(2,831)
Provision for impairment of investment securities	**-**	5,350	**-**	–	**-**	–	**-**	5,350
Write-down of inventories to net realisable value/ (write-back of provision for inventories)	**36,626**	(11,672)	**-**	–	**-**	–	**36,626**	(11,672)

6 Turnover and segment information (Continued)

(a) Primary reporting format – business segments (Continued)

	Sourcing and distribution		Production		Others		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Balance sheet								
Assets								
Segment assets	**6,920,489**	5,516,297	**1,448,033**	942,323	**165,893**	–	**8,534,415**	6,458,620
Goodwill	**320,180**	–	**36,323**	–	**-**	–	**356,503**	–
Interests in jointly controlled entities	**-**	–	**367,861**	351,698	**-**	–	**367,861**	351,698
Investment securities	**-**	14,198	**-**	–	**-**	–	**-**	14,198
Available-for-sale financial assets	**14,462**	–	**-**	–	**-**	–	**14,462**	–
Unallocated assets							**2,094**	2,048
Total assets							**9,275,335**	6,826,564
Liabilities								
Segment liabilities	**4,361,796**	4,005,703	**1,089,333**	652,013	**91,500**	–	**5,542,629**	4,657,716
Unallocated liabilities							**71,993**	112,546
Total liabilities							**5,614,622**	4,770,262

(b) Secondary reporting format – geographical segments

In respect of geographical segments reporting, turnover and segment results are based on the country in which the customers are located. Total assets and capital expenditure are where the assets are located.

No geographical analysis is provided as less than 10% of the Group's turnover and results are attributable to markets outside the PRC.

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7 Other gains, net

	2005	2004
	HK$'000	*HK$'000*
Revenue from agency services	**7,827**	14,154
Rental income	**4,525**	1,065
Dividend income from unlisted investments	**2,602**	2,069
Interest income from		
– Loans receivable	**2,207**	23,261
– Bank deposits	**4,073**	1,671
Government grants (note below)	**23,402**	30,792
Net exchange gain/(loss)	**16,768**	(3,133)
Commission income	**5,866**	9,054
Loss on disposal of property, plant and equipment	**(338)**	(669)
Fair value gain on investment properties (*Note 16*)	**6,000**	–
Others	**(5,231)**	5,159
	67,701	83,423

Note: This represents government grants received by the Group in accordance with CaiQi【2004】Number 35 document, pursuant to which companies in the PRC engaging in the production and import of a particular phosphate-based fertilizer are entitled to government subsidy at RMB100 per tonne.

8 Finance costs

	2005	2004
	HK$'000	*HK$'000*
Interest expense on bank and other loans		
– wholly repayable within five years	**101,758**	37,552
– not wholly repayable within five years	**1,543**	2,493
Bank charges and others	**9,075**	7,070
	112,376	47,115

9 Operating profit

Operating profit is stated after charging/(crediting) the following:

	2005	2004
	HK$'000	*HK$'000*
Employee benefit expenses *(Note 14)*	**123,483**	77,391
Amortisation of land use rights	**1,675**	966
Depreciation of property, plant and equipment	**49,564**	20,635
Operating lease rental in respect of properties	**10,882**	7,754
Write-down of inventories to net realisable value/ (write-back of provision for inventories)	**36,626**	(11,672)
Provision for impairment of investment securities	**–**	5,350
Direct operating expenses arising from investment properties that generate rental income	**1,130**	–
Research and development costs	**–**	1,944
Write-back of provision for impairment of receivables	**(67)**	(2,831)
Auditors' remuneration	**5,822**	174

10 Income tax expense

	2005	2004
	HK$'000	*HK$'000*
Current income tax		
Hong Kong profits tax	**1,443**	1,036
PRC enterprise income tax	**130,137**	136,924
Deferred income tax *(Note 32)*	**5,953**	3,294
	137,533	141,254

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit of the Group's companies in Hong Kong for the year.

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10 Income tax expense (Continued)

PRC enterprise income tax has been provided on the estimated assessable profits of the Group's subsidiaries operating in the PRC at the applicable income tax rate of 33% (2004: 33%). Certain PRC subsidiaries of the Group are entitled to preferential income tax treatments which are detailed below:

(a) Sinochem Chongqing Fuling Chemical Fertilizer Company ("Sinochem Fuling"), a 60% owned subsidiary of the Group, is currently subject to a preferential PRC enterprise income tax rate of 15% granted by the local tax bureau of Chongqing City in July 2001. According to the policy for the development of the Western region of the PRC promulgated by the State Council, Sinochem Fuling is entitled to this preferential income tax treatment from 2002 to 2010 provided it is engaged in the projects listed in the Catalogue for Industries, Products and Technologies Currently and Particularly Encouraged by the State for Development (as amended in 2000) and its principal business and revenue from the principal operations accounts for over 70% of its total revenue.

(b) Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited ("Sinochem Zhisheng"), a 53.19% owned subsidiary of the Group, is currently entitled to a preferential income tax treatment granted by the State Tax Bureau of Fujian province. Pursuant to such preferential income tax treatment, 40% of the amount invested in domestically made machinery by Sinochem Zhisheng in a particular year under its technological renovation project for compound fertilizer production can be applied to set off against the enterprise income tax of the preceding year.

Income tax expense on overseas profits has been calculated on the estimated assessable profit for the year at the income tax rates prevailing in the tax jurisdictions in which the Group operates.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the main applicable tax rate of 33% as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit before income tax	**929,957**	668,065
Tax calculated at the main applicable tax rate of 33% (2004: 33%)	**306,885**	220,462
Effect of different income tax rates in other jurisdictions	**(2,178)**	(1,169)
Effect of tax exemptions	**(7,566)**	(8,203)
Income not subject to tax	**(167,033)**	(91,364)
Expenses not deductible for tax purpose	**285**	1,141
Others	**7,140**	20,387
Income tax expense	**137,533**	141,254

11 Profit attributable to shareholders of the Company

The profit attributable to shareholders of the Company is dealt with in the financial statements of the Company to the extent of HK$120,889,000 for the period from 1 April 2005 to 31 December 2005, including dividend income from a subsidiary of HK$124,120,000 (1 April 2004 to 31 March 2005: Loss of HK$2,515,000).

12 Dividends

	2005	2004
	HK$'000	*HK$'000*
Proposed final dividend of 2.01 HK cents (2004: Nil) per ordinary share	**116,913**	–

The proposed final dividend for the year ended 31 December 2005 was declared at the meeting of Board of Directors held on 10 April 2006. This proposed dividend is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2006 (Note 30).

13 Earnings per share

Under the reverse acquisition method of accounting, the 5,050,000,000 ordinary shares issued by the Company to Sinochem HK to effect the Transaction described in note 2 above are deemed to be issued on 1 January 2004 for the purpose of calculating the earnings per share.

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of the Company of HK$779,421,000 (2004: HK$510,824,000) and on the weighted-average number of 5,378,098,830 (2004: 5,050,000,000) ordinary shares in issue during the year.

Diluted earnings per share has not been presented as the Company has no potential dilutive ordinary shares after the completion date of the Transaction.

14 Employee benefit expenses

	2005	2004
	HK$'000	*HK$'000*
Salaries and wages, including bonuses	**92,900**	56,587
Contributions to pension plans *(Note (a))*	**4,669**	1,414
Staff welfare and allowance	**25,914**	19,390
	123,483	77,391

14 Employee benefit expenses (Continued)

(a) Pensions – defined contribution plans

Employees in the Group's PRC subsidiaries are required to participate in defined contribution retirement plans administered and operated by the local municipal government. The Group's PRC subsidiaries contribute 18% to 20% of employees' basic salary to the plans to fund the retirement benefits of the employees.

(b) Directors' and senior management's emoluments

The remuneration of each director of the Company for the period from 1 April 2005 to 31 December 2005 is set out below:

	Fees	Basic salaries, allowances, and other benefits in kind	Contributions to pension plans	Discretionary bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Liu De Shu	–	–	–	–	–
Mr. Song Yu Qing	–	–	–	–	–
Mr. Du Ke Ping (a)	–	278	–	293	571
Ms. Chen Hao	–	–	–	–	–
Dr. Chen Guo Gang (a)	–	–	–	–	–
Dr. Stephen Francis Dowdle (a)	–	–	–	–	–
Mr. Ko Ming Tung, Edward	176	–	–	–	176
Dr. Li Ka Cheung, Eric	176	–	–	–	176
Dr. Tang Tin Sek	176	–	–	–	176
Mr. Chu Yu Lin, David (b)	–	–	–	–	–
Mrs. Chu Ho Miu Hing (b)	–	–	–	–	–
	528	278	–	293	1,099

14 Employee benefit expenses (Continued)

(b) Directors' and senior management's emoluments (Continued)

The remuneration of each director of the Company for the year ended 31 March 2005 is set out below:

	Fees	Basic salaries, allowances, and other benefits in kind	Contributions to pension plans	Discretionary bonuses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Liu De Shu	–	–	–	–	–
Mr. Song Yu Qing	–	–	–	–	–
Ms. Chen Hao	–	–	–	–	–
Mr. Ko Ming Tung, Edward	200	–	–	–	200
Dr. Li Ka Cheung, Eric (c)	102	–	–	–	102
Dr. Tang Tin Sek	200	–	–	–	200
Mr. Chu Yu Lin, David	–	–	–	–	–
Mrs. Chu Ho Miu Hing	–	–	–	–	–
Mr. Lei Yonglang (d)	–	–	–	–	–
	502	–	–	–	502

Notes:

(a) Appointed on 27 July 2005
(b) Resigned on 31 August 2005
(c) Appointed on 28 September 2004
(d) Resigned on 13 April 2004

No directors of the Company waived any emoluments and no emoluments were paid by the Group to any of the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office.

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14 Employee benefit expenses (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2004: nil) director of the Company whose emoluments are reflected in the analysis presented in note (b) above. The emoluments payable to the remaining four (2004: five) individuals during the year are as follows:

	2005	2004
	HK$'000	*HK$'000*
Basic salaries, allowances and other benefits in kind	**1,982**	1,425
Contributions to pension plans	**87**	102
Discretionary bonuses	**1,293**	1,810
	3,362	3,337

The emoluments fell within the following band:

	Number of individuals	
	2005	2004
Emolument band		
Nil – HK$1,000,000	**4**	5

None of the highest paid individuals of the Group waived any emoluments and no emoluments were paid by the Group to any of such individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

15 Property, plant and equipment

	The Group					
	Buildings	Plant, machinery and equipment	Motor vehicles	Furniture and fixtures	Assets under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004						
Cost	36,774	32,019	7,134	7,353	1,930	85,210
Accumulated deprecation	(4,527)	(1,676)	(3,280)	(2,328)	–	(11,811)
Net book value	32,247	30,343	3,854	5,025	1,930	73,399
Year ended 31 December 2004						
Opening net book value	32,247	30,343	3,854	5,025	1,930	73,399
Additions	463	1,843	4,411	2,780	46,514	56,011
Acquisition of subsidiaries *(Note 37(c))*	68,750	70,609	6,473	12,869	244,124	402,825
Transfer from assets under construction	50,611	110,650	–	44,286	(205,547)	–
Depreciation	(4,862)	(10,795)	(1,346)	(3,632)	–	(20,635)
Disposals	(3,179)	(334)	(6)	(87)	–	(3,606)
Closing net book value	144,030	202,316	13,386	61,241	87,021	507,994
At 31 December 2004						
Cost	149,623	211,660	17,895	66,705	87,021	532,904
Accumulated deprecation	(5,593)	(9,344)	(4,509)	(5,464)	–	(24,910)
Net book value	144,030	202,316	13,386	61,241	87,021	507,994
Year ended 31 December 2005						
Opening net book value	144,030	202,316	13,386	61,241	87,021	507,994
Additions	–	482	12,822	5,607	236,534	255,445
Acquisition of subsidiaries *(Note 38(a))*	–	–	–	140	–	140
Transfer from assets under construction	72,811	116,636	–	122	(189,569)	–
Depreciation	(10,296)	(32,790)	(2,432)	(4,046)	–	(49,564)
Disposals	–	(3)	(604)	(16)	–	(623)
Exchange differences	3,955	4,859	413	1,396	2,495	13,118
Closing net book value	210,500	291,500	23,585	64,444	136,481	726,510
At 31 December 2005						
Cost	226,625	334,557	29,380	73,800	136,481	800,843
Accumulated deprecation	(16,125)	(43,057)	(5,795)	(9,356)	–	(74,333)
Net book value	210,500	291,500	23,585	64,444	136,481	726,510

Bank borrowings are secured on buildings and plant, machinery and equipment with a carrying amount of HK$51,657,000 (2004: HK$203,178,000).

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16 Investment properties

	The Group HK$'000
Acquisition of subsidiaries *(Note 38(a))*	154,000
Fair value gain for the year *(Note 7)*	6,000
At 31 December 2005	160,000

The investment properties were revalued at 31 December 2005 by independent professionally qualified valuer, Chesterton Petty Limited. Valuations were based on current prices in an active market for these properties.

The Group's interests in investment properties are in Hong Kong and held on leases between 10 to 50 years. All the investment properties are pledged for bank borrowings.

17 Land use rights

	The Group	
		(Restated)
	2005	2004
	HK$'000	*HK$'000*
Net book value at 1 January	**42,659**	4,665
Acquisition of subsidiaries *(Note 37(c))*	**–**	38,960
Amortisation	**(1,675)**	(966)
Exchange differences	**940**	–
Net book value at 31 December	**41,924**	42,659

The Group's interests in land use rights represent prepaid operating lease payments and are held in the PRC with lease period over 50 years.

Bank borrowings are secured on land use rights with a carrying amount of HK$40,718,000 (2004: HK$38,897,000).

18 Mining right

	The Group
	HK$'000
Acquisition of a subsidiary *(Note 38(b))* and balance at 31 December 2005	22,839

The mining right on a phosphate reserve is held by a 60% owned subsidiary which was acquired by the Group on 27 October 2005 (Note 38(b)). The mining right is stated at cost to the Group which represented a close approximation to its fair value as at the date of acquisition based on the valuation reported by independent professionally qualified valuer, China Assets Appraisal Co., Ltd. and estimation made by the directors.

19 Goodwill

	The Group
	HK$'000
Additions *(Note 38(a))* and balance at 31 December 2005	356,503

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

A segment-level summary of the goodwill allocation is presented below.

	HK$'000
Sourcing and distribution	320,180
Production	36,323
	356,503

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial estimates prepared by management. Cash flows beyond the year 2006 are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

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19 Goodwill (Continued)

Key assumptions used for value-in-use calculations

	Sourcing and distribution	**Production**
Gross profit margin	8.0%	12.6%
Growth rate	6.8%	6.8%
Discount rate	12.0%	12.0%

Management determined budgeted gross profit margin based on past performance and its expectations on the market development. The weighted average growth rates used are consistent with the growth of the PRC economy. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

20 Investments in subsidiaries – The Company

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**8,704,220**	1,071,061
Less: Provision for impairment in value	**(1,071,061)**	(1,071,061)
	7,633,159	–
Amounts due from subsidiaries (Note below)	**1,143,104**	1,308,045
Less: Provision for impairment	**(766,559)**	(861,021)
	376,545	447,024
	8,009,704	447,024

Note:

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors of the Company, the amounts are considered as quasi-equity loans to the subsidiaries.

Details of the principal subsidiaries are set out in note 42 to the financial statements.

21 Interests in jointly controlled entities

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**367,861**	351,698

Movements of share of net assets of jointly controlled entities are as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**351,698**	72,141
Additions	**–**	237,943
Share of results before income tax	**54,967**	41,982
Share of income tax expense	**(5,026)**	(368)
	49,941	41,614
Dividends paid	**(41,782)**	–
Exchange differences	**8,004**	–
At 31 December	**367,861**	351,698

21 Interests in jointly controlled entities (Continued)

The Group's share of interests in its jointly controlled entities is as follows:

	2005	2004
	HK$'000	*HK$'000*
Assets		
Non-current assets	**470,414**	292,660
Current assets	**390,400**	314,340
	860,814	607,000
Liabilities		
Non-current liabilities	**250,703**	42,399
Current liabilities	**242,250**	212,903
	492,953	255,302
Net assets	**367,861**	351,698
Income	**661,563**	359,249
Expenses	**(611,622)**	(317,635)
Profit for the year	**49,941**	41,614
Proportionate interests in jointly controlled entities' commitments	**437,550**	26,787

There are no contingent liabilities that the Group has incurred in relation to its interest in the jointly controlled entities, and no contingent liabilities of the jointly controlled entities themselves.

Details of the principal jointly controlled entities are set out in note 42 to the financial statements.

22 Available-for-sale financial assets/Investment securities

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**19,933**	19,548
Less: Provision for impairment	**(5,471)**	(5,350)
	14,462	14,198

Available-for-sale financial assets (effective from 1 January 2005)/Investment securities (from 1 January 2004 to 31 December 2004) represent unlisted shares in companies in which the Group has less than 20% shareholdings, or where the Group's equity interests is over 20% but the Group does not have significant influence in the management of the companies.

23 Inventories

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Fertilizer merchandise and finished goods	**4,679,235**	3,789,562
Raw materials	**96,768**	103,211
Work in progress	**18,330**	7,843
Production supplies	**3,816**	1,955
	4,798,149	3,902,571

The cost of inventories recognised as expense and included in cost of sales amounted to HK$17,199,211,000 (2004: HK$10,444,096,000).

24 Loans receivable

The loans receivable represented funds deposited with China Foreign Economy And Trade Trust & Investment Company Limited ("CETTI") for the purpose of the back-to-back lending to Sinochem Corporation. The loans to Sinochem Corporation were interest bearing at 2.5% per annum for the year ended 31 December 2004. The loans receivable has been fully settled in May 2005.

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25 Trade and bills receivables

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Trade receivables		
Third parties	**384,427**	152,927
Jointly controlled entity	**–**	2,985
Related parties *(Note 41(b))*	**19,446**	54
	403,873	155,966
Bills receivables	**442,837**	377,227
	846,710	533,193

The carrying amounts of trade and bills receivables approximate their fair values.

Majority of the sales of the Group were made on cash delivery basis. Where credit terms are granted to customers, the credit terms are within 120 days. The ageing analysis of trade receivables at the balance sheet date is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
One to three months	**363,176**	123,208
Four to six months	**39,046**	12,546
Seven months to one year	**373**	13,763
One to two years	**1,278**	3,802
Over two years	**–**	2,647
	403,873	155,966

26 Bills discounted to banks/Bank advances for discounted bills

The Group discounted certain bills to banks with recourse in exchange for cash. The transactions have been accounted for as collateralised bank advances for the year ended 31 December 2005. The bills discounted to banks and remained outstanding as at 31 December 2005 amounted to HK$1,417,893,000.

27 Cash and cash equivalents

	The Group		The Company	
	At 31 December 2005	At 31 December 2004	**At 31 December 2005**	At 31 March 2005 *(Note 44)*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash at bank and in hand	**66,551**	214,064	**1,270**	1,270
Denominated in:				
HK$	**3,344**	677	**1,270**	1,270
RMB	**54,642**	178,866	**–**	–
USD	**8,191**	34,521	**–**	–
MOP	**374**	–	**–**	–
	66,551	214,064	**1,270**	1,270

(i) The weighted average effective interest rate on bank balances is 0.70% (2004: 0.43%).

(ii) The Group's cash and cash equivalents denominated in RMB are deposited with banks in the PRC. The conversion of these RMB denominated balances into foreign currencies and the remittance of funds out of the PRC are subject to the rules and regulations of foreign exchange control promulgated by the PRC Government.

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28 Issued equity

	The Group	
	Number of shares *(in thousand)*	**Issued equity *HK$'000***
	5,807,950	767,766

(a) Issued equity of the Group

Due to the application of reverse acquisition basis of accounting, the amount of issued equity of the Group, which includes share capital and share premium in the consolidated balance sheet, represents the amount of issued equity of the legal subsidiary, China Fertilizer (Holdings) Company Limited, immediately before the acquisition of approximately HK$78,000, the deemed cost of acquisition of the Property Group of approximately HK$285,363,000 (Note 38(a) below), and the issue of new shares as described in note (b)(iv) below of approximately HK$482,325,000, after deducting the costs of issuing the new shares. The equity structure, being the number and type of shares, reflects the equity structure of the legal parent, Sinochem Hong Kong Holdings Limited.

(b) Share capital of the Company

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

	Number of shares *(in thousand)*	**Nominal value *HK$'000***
Ordinary shares		
Authorised:		
Ordinary shares of HK$0.10 each at 1 April 2004 and 1 April 2005 *(Note (i))*	6,840,000	684,000
Increase in authorised share capital *(Note (ii)(d))*	73,160,000	7,316,000
Ordinary shares of HK$0.10 each at 31 December 2005	80,000,000	8,000,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1 April 2004 *(Note (i))*	3,676,098	367,610
Exercise of share options	3,400	340
Ordinary shares of HK$0.10 each at 1 April 2005 *(Note (i))*	3,679,498	367,950
Capital reduction and share consolidation *(Note (ii)(a) and (b))*	(3,311,548)	(331,155)
Issue of Consideration Shares *(Note (iii))*	5,050,000	505,000
Issue of new shares *(Note (iv))*	390,000	39,000
Ordinary shares of HK$0.10 each at 31 December 2005	5,807,950	580,795

28 Issued equity (Continued)

(b) Share capital of the Company (Continued)

	Number of shares	Nominal value HK$'000
Preference shares		
Authorised:		
Preference shares of HK$1,000,000 each	316	316,000
Issued and fully paid:		
Preference shares of HK$1,000,000 each at 1 April 2004	103	103,000
Redemption of preference shares *(Note (v))*	(103)	(103,000)
Preference shares of HK$1,000,000 each at 31 March 2005 and 31 December 2005	–	–

Notes:

(i) Pursuant to the approval at the special general meeting of shareholders on 5 July 2005, the Company changed its financial year date from 31 March to 31 December. In the current period, the movements of share capital of the Company were prepared for the nine-month period from 1 April 2005 to 31 December 2005, while the comparative information was prepared for the year from 1 April 2004 to 31 March 2005.

(ii) Pursuant to the special and ordinary resolutions passed at the special general meeting of the Company on 5 July 2005, the Company carried out the following capital reorganisation:

(a) the nominal value of each issued ordinary share of HK$0.10 each of the Company was reduced to HK$0.01 each ("Capital Reduction") (Note 30);

(b) every 10 ordinary shares of HK$0.01 each was consolidated ("Share Consolidation") into one ordinary share of HK$0.10 each ("New Share");

(c) the amount in share premium account of the Company as at 31 March 2004 was cancelled ("Existing Share Premium Cancellation") (Note 30);

(d) the authorised share capital of the Company was increased from HK$1,000,000,000 to HK$8,316,000,000 by the creation of an additional 73,160,000,000 ordinary shares of HK$0.10 each, such that the authorised share capital is divided into 80,000,000,000 ordinary shares of HK$0.10 each and 316 convertible redeemable non-voting preference shares of HK$1,000,000 each.

(e) the amount of HK$131,625,000, representing part of the share premium arising from the issue of 5,050 million Consideration Shares, was cancelled ("Further Share Premium Cancellation") (Note 30); and

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28 Issued equity (Continued)

(b) Share capital of the Company (Continued)

Notes: (Continued)

(f) all the credit balances in connection with the Capital Reduction, the Existing Share Premium Cancellation and the Further Share Premium Cancellation were transferred to the contributed surplus account of the Company;

(iii) As mentioned in note 2 above, the consideration of the Transaction was satisfied by the allotment and issue of 5,050 million Consideration Shares to Sinochem HK. The Transaction was completed on 27 July 2005. For the purpose of accounting, the Consideration Shares are issued at the quoted share price of the Company on the completion date of HK$1.51 per share, resulting in credits to share capital of the Company of HK$505,000,000 and share premium of HK$7,120,500,000 (Note 30).

(iv) On 27 July 2005, 390,000,000 new ordinary shares of the Company of par value HK$0.10 each were issued at HK$1.3 each to new shareholders, deriving net proceeds totalling HK$482,325,000.

(v) On 23 February 2005, the holder of the preference shares, Sinochem HK issued a redemption notice to the Company requesting the redemption of all the 103 preference shares at the nominal value of HK$1,000,000 each. As such, the redemption amount of HK$103 million was reclassified under current liabilities as amount due to a shareholder. Such amount has been fully paid in July 2005.

29 Share option scheme

The share option scheme adopted by the Company on 11 September 1996 ("Old Share Option Scheme") was terminated on 26 August 2002.

A new share option scheme ("New Share Option Scheme") was approved and adopted on 26 August 2002 by the Company in place of the Old Share Option Scheme. The purpose of the New Share Option Scheme is to provide incentives or rewards to the eligible persons as defined in the scheme for their contribution or would be contribution to the Group and/or to enable the Group to recruit and retain high-calibre employee and attract human resources that are valuable to the Group. No options have been granted under the New Share Option Scheme since its adoption up to 31 December 2005.

Movements in the number of share options outstanding under the Old Share Option Scheme and their related weighted average exercise prices are as follows:

	Average exercise price per share *HK$*	**Options** *(in thousand)*
At 1 April 2004	0.281	19,000
Exercised	0.255	(3,400)
Lapsed	–	(11,600)
Cancelled	–	(2,000)
At 31 March 2005	**0.378**	**2,000**
Lapsed	**–**	**(2,000)**
At 31 December 2005	**–**	**–**

All outstanding options as at 31 March 2005 were exercisable. Options exercised in 2004 resulted in 3,400,000 shares being issued at HK$0.255 each. The related weighted average share price at the time of exercise was HK$0.375 per share.

The share options outstanding as at 31 March 2005 had, with an exercise price of HK$0.378 per share, expired in June 2005.

On 23 January 2006, the Company granted 30,010,000 share options to certain directors and employees. These share options are exercisable at the price of HK$1.672 per share and are expiring on 22 January 2012.

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30 Reserves

The Group

	Merger reserve (Note (i)) HK$'000	Capital reserve (Note (ii)) HK$'000	Statutory reserves (Note (iii)) HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2004	109,370	126,293	206,336	587	667,666	1,110,252
Profit for the year	–	–	–	–	510,824	510,824
Appropriation to reserves	–	–	66,328	–	(66,328)	–
Currency translation differences	–	–	–	(482)	–	(482)
Contribution from owner	136,262	143,932	–	–	–	280,194
Balance at 31 December 2004	245,632	270,225	272,664	105	1,112,162	1,900,788
Balance at 1 January 2005	**245,632**	**270,225**	**272,664**	**105**	**1,112,162**	**1,900,788**
Profit for the year	**–**	**–**	**–**	**–**	**779,421**	**779,421**
Appropriation to reserves	**–**	**–**	**6,114**	**–**	**(6,114)**	**–**
Currency translation differences	**–**	**–**	**–**	**26,683**	**–**	**26,683**
Reserves	**245,632**	**270,225**	**278,778**	**26,788**	**1,768,556**	**2,589,979**
Proposed final dividend	**–**	**–**	**–**	**–**	**116,913**	**116,913**
Balance at 31 December 2005	**245,632**	**270,225**	**278,778**	**26,788**	**1,885,469**	**2,706,892**

30 Reserves (Continued)

The Company

	Share premium HK$'000	Contributed surplus HK$'000	(Accumulated losses)/ retained profits HK$'000	Total HK$'000
Balance at 1 April 2004	749,182	1,114,686	(2,326,648)	(462,780)
Issue of shares	527	–	–	527
Loss for the year	–	–	(2,515)	(2,515)
Preference share dividend	–	–	(935)	(935)
Balance at 31 March 2005	749,709	1,114,686	(2,330,098)	(465,703)
Balance at 1 April 2005	**749,709**	**1,114,686**	**(2,330,098)**	**(465,703)**
Capital reduction *(Note 28(b)(ii)(a)*	**–**	**331,155**	**–**	**331,155**
Existing Share Premium Cancellation *(Note 28(b)(ii)(c))*	**(749,182)**	**749,182**	**–**	**–**
Issue of Consideration Shares *(Note 28(b)(iii))*	**7,120,500**	**–**	**–**	**7,120,500**
Issue of new shares net of issuing expenses *(Note 28(b)(iv))*	**443,325**	**–**	**–**	**443,325**
Further Share Premium Cancellation *(Note 28(b)(ii)(e))*	**(131,625)**	**131,625**	**–**	**–**
Set-off against accumulated losses *(Note (iv))*	**–**	**(2,326,648)**	**2,326,648**	**–**
Profit for the period	**–**	**–**	**120,889**	**120,889**
Reserves	**7,432,727**	**–**	**526**	**7,433,253**
Proposed final dividend	**–**	**–**	**116,913**	**116,913**
Balance at 31 December 2005	**7,432,727**	**–**	**117,439**	**7,550,166**

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30 Reserves (Continued)

Notes:

(i) The merger reserve of the Group comprises the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the shares issued by the holding companies as consideration for the group restructuring transactions in the previous years.

(ii) The capital reserve of the Group comprises contributions from owner in respect of the settlement of certain doubtful receivables in the previous years, and the transfer of equity interest in a jointly controlled entity to the Group in year 2004.

(iii) Statutory reserves comprise statutory reserve fund and enterprise expansion fund. In accordance with the relevant rules and regulations on foreign investment enterprise established in the PRC, the Company's PRC subsidiaries are required to transfer an amount of their profit after income tax to the statutory reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory reserve fund may be distributed to shareholders in the form of bonus issue. The appropriation to the enterprise expansion fund is solely determined by the board of directors of the subsidiaries in the PRC.

(iv) The Board of Directors resolved to transfer contributed surplus of HK$2,326,648,000 to set off against the Company's accumulated losses.

31 Borrowings

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Non-current		
Long-term bank borrowings	**234,088**	49,496
Other borrowing *(Note (a))*	**–**	81,205
	234,088	130,701
Current		
Short-term bank borrowings	**976,541**	1,477,925
Long-term bank borrowings repayable within one year	**48,511**	5,641
Loans from CETTI *(Note (b))*	**–**	155,439
	1,025,052	1,639,005
Total borrowings	**1,259,140**	1,769,706
Representing:		
– secured *(Note (c))*	**126,744**	180,502
– guaranteed *(Note (d))*	**13,044**	1,328,983
– unsecured	**1,119,352**	260,221
Total borrowings	**1,259,140**	1,769,706
Analysed as follows:		
– wholly repayable within five years	**1,185,977**	1,658,417
– not wholly repayable within five years	**73,163**	111,289
Total borrowings	**1,259,140**	1,769,706

31 Borrowings (Continued)

Notes:

(a) Other borrowing represented a loan borrowed from The Import-Export Bank of China by Sinochem Corporation for use by the Group. The loan was unsecured, interest bearing at 1% per annum and had been fully repaid in May 2005.

(b) The loans from CETTI as at 31 December 2004 were unsecured, interest bearing at 4.8% per annum and had been fully repaid in May 2005.

(c) As at 31 December 2005, certain property, plant and equipment, land use rights and investment properties of HK$252,375,000 (2004: HK$242,075,000) were pledged as securities for bank borrowings.

(d) As at 31 December 2005, bank borrowings amounting to HK$13,044,000 (2004: HK$20,278,000) were guaranteed by a related company of a joint venture partner.

The guarantees provided by Sinochem Corporation for the bank borrowings of HK$1,308,705,000 as at 31 December 2004 have been fully released in May 2005.

An analysis of the carrying amounts of the Group's total borrowings by type and currency is as follows:

	2005	2004
	HK$'000	*HK$'000*
HK$ at floating rates	**80,263**	–
RMB at fixed rates	**875,987**	426,802
USD at floating rates	**302,890**	1,261,699
Euro at fixed rates	**–**	81,205
Total borrowings	**1,259,140**	1,769,706

The weighted average effective interest rates per annum at the balance sheet date were as follows:

	2005	2004
HK$	**4.36%**	–
RMB	**4.68%**	5.22%
USD	**3.94%**	2.76%
Euro	**–**	1.00%

31 Borrowings (Continued)

The maturities of the Group's borrowings (excluding other borrowing and loans from CETTI) are as follows:

	2005	2004
	HK\$'000	*HK\$'000*
Repayable:		
– within one year	**1,025,052**	1,483,566
– between one to two years	**66,491**	7,521
– between three to five years	**127,700**	32,574
– over five years	**39,897**	9,401
	1,259,140	1,533,062

The carrying amounts of short-term bank borrowings and current portion of long-term bank borrowings approximate their fair values.

The carrying amounts and fair values of the non-current borrowings are as follows:

	2005	2004
	HK\$'000	*HK\$'000*
Carrying amounts	**234,088**	130,701
Fair values	**234,428**	129,282

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics.

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32 Deferred income tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Deferred income tax assets	**(2,094)**	(2,048)
Deferred income tax liabilities	**21,385**	4,154
	19,291	2,106

Deferred income tax assets and deferred income tax liabilities are expected to be settled after more than 12 months.

The movement on the deferred income tax is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
At January	**2,106**	860
Acquisition of subsidiaries *(Note 38(a) and 37(c))*	**11,128**	(2,048)
Recognised in the income statement	**5,953**	3,294
Exchange differences	**104**	–
At 31 December	**19,291**	2,106

32 Deferred income tax (Continued)

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	The Group							
	Undistributed profits of a subsidiary and jointly controlled entities		Revaluation of investment properties		Others		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Deferred income tax liabilities								
At 1 January	**11,451**	–	**-**	–	**1,689**	860	**13,140**	860
Acquisition of subsidiaries *(Note 38(a))*	**-**	–	**10,774**	–	**354**	–	**11,128**	–
Recognised in the income statement	**1,663**	11,451	**1,050**	–	**11,092**	829	**13,805**	12,280
Exchange differences	**276**	–	**-**	–	**165**	–	**441**	–
At 31 December	**13,390**	11,451	**11,824**	–	**13,300**	1,689	**38,514**	13,140

	The Group							
	Unrealised profits in inventories		Provisions		Impairment of property, plant and equipment		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Deferred income tax assets								
At 1 January	**(8,986)**	–	**-**	–	**(2,048)**	–	**(11,034)**	–
Acquisition of subsidiaries *(Note 37(c))*	**-**	–	**-**	–	**-**	(2,048)	**-**	(2,048)
Recognised in the income statement	**4,236**	(8,986)	**(12,088)**	–	**-**	–	**(7,852)**	(8,986)
Exchange differences	**(153)**	–	**(138)**	–	**(46)**	–	**(337)**	–
At 31 December	**(4,903)**	(8,986)	**(12,226)**	–	**(2,094)**	(2,048)	**(19,223)**	(11,034)

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group and the Company did not recognise deferred income tax assets in respect of losses amounting to HK$540,744,000 (2004: nil) and HK$3,196,000 (As at 31 March 2005: HK$3,196,000) respectively, that can be carried forward against future taxable income. The tax losses do not expire under current tax legislation.

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33 Trade and bills payables

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Third parties	**2,421,644**	1,065,499
Jointly controlled entities	**3,822**	19
Related parties *(Note 41(b))*	**22,846**	365,810
	2,448,312	1,431,328

The credit terms granted to the Group by the suppliers usually range from 30 to 90 days. The ageing analysis of trade and bills payables at the balance sheet date is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
One to three months	**2,244,443**	1,230,960
Four to six months	**197,249**	81,153
Seven months to one year	**6,022**	96,238
One to two years	**598**	22,953
Over two years	**–**	24
	2,448,312	1,431,328

34 Amount due from a subsidiary – The Company

The amount due from a subsidiary is unsecured, interest free and repayable on demand.

35 Amounts due to subsidiaries – The Company

As at 31 March 2005, the amounts due to subsidiaries were unsecured, interest free and had no fixed terms of repayment.

36 Amount due to a shareholder – The Company

As at 31 March 2005, the amount due to a shareholder was unsecured and interest free, except for the amount of HK$9,000,000 which was interest bearing at prevailing interest rates.

37 Notes to the consolidated cash flow statement

(a) Reconciliation of profit for the year to cash generated from operations is as follows:

	2005	2004
	HK$'000	*HK$'000*
Profit for the year	**792,424**	526,811
Income tax expense	**137,533**	141,254
Finance costs	**112,376**	47,115
Share of results of jointly controlled entities	**(49,941)**	(41,614)
Depreciation of property, plant and equipment	**49,564**	20,635
Fair value gain of investment properties	**(6,000)**	–
Amortisation of land use rights	**1,675**	966
Dividend income	**(2,602)**	(2,069)
Interest income	**(6,280)**	(24,932)
Loss on disposal of property, plant and equipment	**338**	669
Operating profit before working capital changes	**1,029,087**	668,835
Increase in inventories	**(820,293)**	(783,901)
Increase in trade and bills receivables	**(297,061)**	(62,967)
Decrease/(increase) in advance payments and other receivables	**627,821**	(699,436)
Increase in trade and bills payables	**973,652**	346,554
(Decrease)/increase in receipts in advance and other payables	**(1,088,301)**	985,214
Cash generated from operations	**424,905**	454,299

(b) In the cash flow statement, proceeds from disposal of property, plant and equipment comprise:

	2005	2004
	HK$'000	*HK$'000*
Net book value *(Note 15)*	**623**	3,606
Loss on disposal of property, plant and equipment	**(338)**	(669)
Proceeds from disposal of property, plant and equipment	**285**	2,937

37 Notes to the consolidated cash flow statement (Continued)

(c) Major non-cash transactions

The major non-cash transaction for the year ended 31 December 2005 was the deemed acquisition of the Property Group by the Fertilizer Group in July 2005 *(Note 38(a))*.

The major non-cash transactions for the year ended 31 December 2004 were set out below:

(i) In September 2004, Sinochem Corporation entered into a transfer agreement to transfer a 60% equity interest in Sinochem Fuling and its subsidiaries to the Group at nil consideration *(Note 41(f)(iv))*. The assets and liabilities of Sinochem Fuling attributable to the Group as at the date of transfer comprised:

	HK$'000
Land use rights	38,960
Property, plant and equipment	402,825
Deferred income tax assets	2,048
Inventories	94,698
Trade and bills receivables	82,017
Advance payments and other receivables	70,872
Cash and cash equivalents	33,297
Trade payables	(109,580)
Receipts in advance and other payables	(86,096)
Borrowings	(294,424)
Current income tax liabilities	(1,576)
Minority interests	(96,857)
Net assets attributable to the Group	136,184

Analysis of net inflow of cash and cash equivalents:

Bank balances and cash acquired	33,297

(ii) In September 2004, Sinochem Corporation entered into a transfer agreement in respect of the transfer to the Group a 41% equity interest in Guiyang Sinochem Kailin Chemical Fertilizer Company Limited ("Sinochem Kailin") at nil consideration *(Note 41(f)(iv))*. The net assets of Sinochem Kailin attributable to the Group amounted to HK$143,932,000 as at the date of transfer *(Note 30(ii))*.

38 Business combinations

(a) As mentioned in note 2 above, on 27 July 2005, the Company issued 5,050,000,000 ordinary shares in exchange for the entire shareholdings in the Fertilizer Group. Pursuant to HKFRS 3 and as disclosed in note 2, the Fertilizer Group is deemed to be the effective acquirer of the Property Group, reverse acquisition accounting is adopted to account for the Transaction, and accordingly these consolidated financial statements have been prepared as a continuation of the consolidated financial statements of the Fertilizer Group, and the results of the Property Group have been consolidated since the completion date of the Transaction.

Details of the net liabilities of the Property Group assumed and goodwill arising from the Transaction are as follows:

	HK$'000
Purchase consideration:	
– Consideration deemed to have been paid by the Fertilizer Group *(Note (i))*	285,363
– Direct costs relating to the acquisition	7,660
Total purchase consideration	293,023
Less: Fair value of net liabilities of the Property Group assumed – *(Note (ii))*	(63,480)
Goodwill	356,503

Notes:

(i) The fair value of the consideration deemed to have been paid by the Fertilizer Group was based on the fair value of the equity instruments deemed to have been issued by the Fertilizer Group for the acquisition of the Property Group.

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38 Business combinations (Continued)

(ii) The separately identifiable assets and liabilities of the Property Group as at the completion date of the Transaction were as follows:

	Fair value *HK$'000*	Acquiree's carrying amount *HK$'000*
Property, plant and equipment *(Note 15)*	140	140
Investment properties *(Note 16)*	154,000	154,000
Trade receivables	1,066	1,066
Other receivables	15,410	15,410
Cash and cash equivalents	1,807	1,807
Other payables	(20,345)	(20,345)
Amount due to a director	(3,271)	(3,271)
Amount due to a shareholder	(116,941)	(116,941)
Borrowings	(84,218)	(84,218)
Deferred income tax liabilities	(11,128)	(354)
Net liabilities assumed	(63,480)	(52,706)

	HK$'000
Direct costs relating to the acquisition	(7,660)
Cash and cash equivalents in subsidiaries acquired	1,807
Cash outflow on the acquisition	(5,853)

The Property Group contributed turnover of HK$4,525,000 and net profit of HK$3,781,000 to the Group for the period from 28 July 2005 (completion date of the Transaction) to 31 December 2005. If the Transaction had occurred on 1 April 2005, the turnover and net profit contributed by the Property Group would have been HK$7,980,000 and HK$5,176,000 respectively.

As extracted from the consolidated financial statements of the Company for the year ended 31 March 2005, the turnover and net profit of the Company and its subsidiaries, which comprise the companies of the Property Group, for the year ended 31 March 2005 were HK$9,951,000 and HK$40,520,000 respectively.

(b) On 27 October 2005, the Group acquired a 60% equity interest in Guizhou Kaiyang Qinglongjiang Company Limited ("Qinglongjiang") at a purchase consideration of HK$13,703,000, of which HK$9,592,000 was paid before the year end. Qinglongjiang is principally engaged in phosphate mining in the PRC. At the acquisition date, the only major asset of Qinglongjiang is a mining right. The directors of the Company are of the view that the cost of the mining right to the Group amounted to HK$22,839,000 *(Note 18)*, which approximates the fair value of the mining right as at the acquisition date. Accordingly, there is no goodwill arising from the acquisition.

Qinglongjiang made no significant contribution to the turnover and profit of the Group from the acquisition date to 31 December 2005.

39 Contingent liabilities

As at 31 December 2005, the Company provided guarantees to banks to the extent of approximately HK$3,359,000,000 (As at 31 March 2005: HK$122,000,000) with respect to banking facilities made available to certain subsidiaries and an aggregate amount of approximately HK$1,712,670,000 (As at 31 March 2005: HK$59,824,000) was utilised by these subsidiaries.

As at 31 December 2005, the Group had no material contingent liabilities (2004: Nil).

40 Commitments

(a) Capital commitments

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Assets under construction		
Contracted but not provided for	**71,922**	229,498
Authorised but not contracted for	**8,459**	17,358
	80,381	246,856
Investment in a jointly controlled entity, Yunnan Three-Circles Sinochem Fertilizer Company Limited	**134,577**	131,616
	214,958	378,472

(b) Future operating lease arrangements

The future aggregate minimum lease receipts under non-cancellable operating leases in respect of properties are as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**8,474**	–
Later than one year but not later than five years	**3,278**	–
	11,752	–

(c) Operating lease commitments

The Group leases various retail outlets, offices, warehouses under non-cancellable operating lease agreements. The leases have varying terms and renewal rights.

The future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Not later than one year	**8,049**	13,867
Later than one year but not later than five years	**4,205**	15,754
Later than five years	**7,509**	–
	19,763	29,621

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41 Significant related party transactions

(a) The Group is controlled by Sinochem Hong Kong (Group) Company Limited (incorporated in Hong Kong), which owns 67% of the Company's shares as at 31 December 2005. The remaining 33% of the shares are widely held. The ultimate holding company of the Group is Sinochem Corporation.

Sinochem Corporation is a state-owned enterprise established in the PRC and is controlled by the PRC government, which also owns a significant portion of productive assets in the PRC. In accordance with HKAS 24 "Related Party Disclosures" issued by the HKICPA, other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government, are also defined as related parties of the Group. On that basis, related parties include Sinochem Corporation and its subsidiaries, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and Sinochem Corporation as well as their close family members.

For the purpose of the related party transactions disclosures, the Group has identified, to the extent practicable, its customers and suppliers as to whether they are state-owned enterprises. However, many state-owned enterprises have a multi-layered corporate structure and the ownership structure may also change over time as a result of the transfers and privatisation programmes. Nevertheless, management believes that all material related party transactions and balances have been adequately disclosed.

The related parties that had transactions with the Group during the year were as follows:

Companies beneficially owned by Sinochem Corporation

U.S. Chem Resources Inc.
(美國化工資源公司)
US Agri-Chemicals Corporation
(美國農化公司)
Sinochem Guangdong Import & Export Corp. ("Sinochem Guangdong")
(中化廣東進出口公司)
Sinochem Shandong Fertilizer Company Limited ("Sinochem Shandong")
(中化山東肥業有限公司)
Sinochem (United Kingdom) Limited
(中化(英國)有限公司)
Qinghai Salt Lake Potash Co. Ltd. ("Qinghai Salt Lake")
(青海鹽湖鉀肥股份有限公司)
International Far East Leasing Co. Ltd. ("International Far East")
(遠東國際租賃有限公司)
China Foreign Economy And Trade Trust & Investment Company Limited ("CETTI")
(中國對外經濟貿易信託投資有限公司)

41 Significant related party transactions (Continued)

Jointly controlled entities of the Group

Hubei Sinochem & Orient Fertilizer Company Limited ("Sinochem Orient")
(湖北中化東方肥料有限公司)
Yunnan Three Circles-Sinochem-Cargill Fertilizer Company Limited ("Sinochem Cargill")
(雲南三環中化嘉吉化肥有限公司)
Guiyang Sinochem Kailin Fertilizer Company Limited ("Sinochem Kailin")
(貴陽中化開磷化肥有限公司)

Joint venture partner of Sinochem Zhisheng

Yongan Zhisheng Chemical Company Limited ("Yongan Zhisheng")
(永安智勝化工有限公司)

(b) As at 31 December 2005, the Group had the following balances with Sinochem Corporation and the related parties set out in note (a) above:

	2005	2004
	HK$'000	*HK$'000*
Trade receivables		
Sinochem (United Kingdom) Limited	**19,446**	–
Advance payments to suppliers		
Sinochem Cargill	**13,635**	25,588
Sinochem Kailin	**9,739**	3,443
Qinghai Salt Lake	**1,209**	188,094
Trade payables		
Sinochem Corporation	**5,410**	–
Yongan Zhisheng	**3,878**	5,447
Sinochem (United Kingdom) Limited	**–**	281,411
U.S. Chem Resources Inc.	**–**	71,075
Sinochem Shangdong	**6,214**	651
Receipts in advance		
Sinochem Shandong	**12**	12,842
Sinochem Guangdong	**–**	23,761
Sinochem Corporation	**2,302**	–
Other payables		
Sinochem (United Kingdom) Limited	**10,342**	8,691
Sinochem Corporation	**–**	27,013
Loans receivable		
Sinochem Corporation	**–**	205,462
Short-term loans		
CETTI	**–**	155,439

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41 Significant related party transactions (Continued)

(c) As at 31 December 2005, the Group had the following balances with other state-owned enterprises as follows:

	2005	2004
	HK$'000	*HK$'000*
Trade and bills receivables	**96,637**	72,848
Advance payments and other receivables	**192,799**	266,930
Cash and cash equivalents	**49,203**	103,737
Trade and bills payables	**126,781**	32,191
Receipts in advance and other payables	**28,616**	194,715
Bank advances for discounted bills	**296,845**	–
Borrowings	**626,432**	1,503,573

Except for cash and cash equivalents and borrowings stated above, all the balances of assets and liabilities are unsecured, non-interest bearing and receivable or repayable within one year.

(d) During the year, the Group had the following transactions with Sinochem Corporation and the related parties set out in note (a) above:

	2005	2004
	HK$'000	*HK$'000*
Sales of fertilizers to:		
Sinochem Corporation	**917,119**	–
Sinochem Guangdong	**31,247**	373,073
U.S. Chem Resources Inc. *(Note i)*	**–**	35,476
Sinochem Orient	**16,553**	10,974
Sinochem Shandong	**46,710**	–
Purchases of fertilizers from:		
Sinochem Corporation	**401,903**	–
Sinochem Guangdong	**225,635**	–
Sinochem Shandong	**224,362**	651
Sinochem (United Kingdom) Limited *(Note i)*	**407,328**	1,752,221
U.S. Chem Resources Inc. *(Note i)*	**27,083**	482,197
Sinochem Orient	**58,724**	16,569
Sinochem Kailin *(Note ii)*	**143,281**	108,389
Sinochem Cargill	**479,352**	357,775
Qinghai Salt Lake	**740,494**	247,684
Yongan Zhisheng	**–**	122,669
Import service fee to:		
Sinochem Corporation *(Note iii)*	**310**	–
US Agri-Chemicals Corporation	**241**	–
Sinochem (United Kingdom) Limited *(Note i)*	**10,225**	–
Interest income on loans receivable from Sinochem Corporation *(Note 7)*	**2,207**	23,261
Sales service fee from Yongan Zhisheng	**–**	134
Purchase of raw materials from Yongan Zhisheng	**47,692**	29,638

41 Significant related party transactions (Continued)

Notes:

(i) Pursuant to the respective agreements entered into between U.S. Chem Resources Inc., Sinochem (United Kingdom) Limited and Sinochem Fertilizer Macao Commercial Offshore Limited ("Sinochem Macao", a wholly-owned subsidiary of the Group in Macao) on 6 June 2005, U.S. Chem Resources Inc. and Sinochem (United Kingdom) Limited shall provide local supplier relations and logistics services to Sinochem Macao for sourcing of fertilizers in the United States and in Europe commencing on the respective agreement dates. Accordingly, sales to and purchases from U.S. Chem Resources Inc. and Sinochem (United Kingdom) Limited had been ceased.

(ii) Sinochem Kailin became a 41% owned jointly controlled entity of the Group since September 2004. Prior to that, the 41% equity interest was owned by Sinochem Corporation.

(iii) Pursuant to the Import Service Framework Agreement ("Import Agreement") entered into between the Group and Sinochem Corporation on 6 June 2005, Sinochem Macao sources fertilizer products from overseas and sells them to Sinochem Corporation, which in turn sells them to Sinochem Fertilizer Company Limited ("Sinochem Fertilizer"), a subsidiary of the Group in the PRC. Similar transactions had been carried out by Sinochem Fertilizer Overseas (Holdings) Limited, a subsidiary of the Group, prior to the set up of the Import Agreement. In the opinion of the directors of the Company, Sinochem Corporation is effectively an import agent to the Group, and accordingly the sales of the Sinochem Macao and Sinochem Fertilizer Overseas (Holdings) Limited and the purchases of Sinochem Fertilizer are eliminated on consolidation of the Group's consolidated financial statements. During the year, the sales and the corresponding purchases that transacted through Sinochem Corporation are eliminated on consolidation amounted to approximately HK$5,344,827,000. In this regard, the import service fee paid by the Group to Sinochem Corporation amounted to approximately HK$310,000.

(e) During the year, the Group had the following transactions with other state-owned enterprises as follows:

	2005 **HK$'000**	2004 HK$'000
Sales of fertilizers	**1,795,672**	1,291,381
Purchases of fertilizers	**2,977,850**	1,414,854
Interest income from bank deposits	**1,932**	1,238
Bank charges	**2,227**	2,534
Interest expenses on bank loans	**66,179**	45,487

The related party transactions with other state-owned enterprises were conducted in the normal course of business at normal commercial terms.

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41 Significant related party transactions (Continued)

(f) Other balances with Sinochem Corporation as at 31 December 2004 and transactions with Sinochem Corporation for the year ended 31 December 2004 are set out below:

(i) Sinochem Corporation provided guarantee in respect of the banking facilities made available to the Group. As at 31 December 2004, the banking facilities utilised by the Group amounted to HK$2,265,680,000. The guarantees provided by Sinochem Corporation had been released upon completion of the Transaction.

(ii) As mentioned in note 31(a) above, a long-term loan of HK$81,205,000 borrowed from The Import-Export Bank of China by Sinochem Corporation was provided for use by the Group.

(iii) On 30 June 2004, the Group entered into an agreement with International Far East, a subsidiary of Sinochem Corporation, to dispose of its 10% equity interest in CETTI to International Far East at book value of HK$99,219,000, resulting in no gain or loss arising from the disposal.

(iv) In September 2004, Sinochem Corporation entered into transfer agreements with the Group to transfer a 60% equity interest in Sinochem Fuling and a 41% equity interest in Sinochem Kailin to the Group at nil consideration.

(v) Before the completion of the Transaction, certain fertilizers were purchased according to the specification of Sinochem Corporation. The relevant purchases and their subsequent sales amounted to HK$378,657,000 and HK$388,414,000 for the year ended 31 December 2004. Upon completion of the Transaction, such fertilizers have been directly purchased by Sinochem Corporation and sold to the Group before selling to the end customers.

(g) Key management compensation

	2005	2004
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**3,991**	3,185
Post employment benefits	**132**	82
	4,123	3,267

(h) In the opinion of the directors of the Group, the above related party transactions were carried out in the Group's ordinary and usual course of business, which are on normal commercial terms and in accordance with the terms of underlying agreements and/or the invoices issued by the respective parties.

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42 Particulars of principal subsidiaries and jointly controlled entities

Particulars of the principal subsidiaries and jointly controlled entities of the Group as at 31 December 2005 are as follows:

Company name	Place of incorporation/ operation	Principal activities	Issued/registered and fully paid share capital	Effective interest held
Subsidiaries				
Directly held:				
China Fertilizer (Holdings) Company Limited	BVI	Investment holding	US$10,000	100.00%
Wah Tak Fung (B.V.I.) Limited	BVI	Investment holding	US$1,000,000	100.00%
Indirectly held:				
Sinochem Fertilizer (Overseas) Holdings Ltd.	BVI	Investment holding	US$10,000	100.00%
Sinochem Fertilizer Company Limited (中化化肥有限公司)	PRC	Fertilizer trading	RMB100,000,000	100.00%
Dohigh Trading Limited (敦尚貿易有限公司)	Hong Kong	Fertilizer trading	HK$15,000,000	100.00%
Sinochem Fertilizer Macao Commercial Offshore Limited (中化化肥澳門離岸商業服務有限公司)	Macao	Fertilizer trading	MOP100,000	100.00%
Suifenhe Xinkaiyuan Trading Company Limited (綏芬河新凱源貿易有限公司)	PRC	Fertilizer trading	RMB5,000,000	100.00%
Sinochem Chemical Fertilizer Erlianhaote Company (二連浩特中化化肥有限責任公司)	PRC	Fertilizer trading	RMB5,000,000	100.00%

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42 Particulars of principal subsidiaries and jointly controlled entities (Continued)

Company name	Place of incorporation/ operation	Principal activities	Issued/registered and fully paid share capital	Effective interest held
Subsidiaries (Continued)				
Indirectly held: (Continued)				
Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited (福建中化智勝化肥有限公司)	PRC	Sales and manufacturing of fertilizers	RMB47,000,000	53.19%
Sinochem Chongqing Fuling Chemical Fertilizer Company Limited (中化重慶涪陵化工有限公司)	PRC	Sales and manufacturing of fertilizers	RMB80,000,000	60.00%
Sinochem Yantai Crop Nutrition Co., Ltd. (煙臺中化作物營養有限公司)	PRC	Sales and manufacturing of fertilizers	US$4,241,000	51.00%
Manzhouli Kaiming Fertilizer Company Limited (滿洲里凱明化肥有限公司)	PRC	Fertilizer trading	RMB5,000,000	100.00%
Guizhou Kaiyang Qinglongjiang Company Limited (貴州開陽青龍江有限公司)	PRC	Phosphate mining	RMB500,000	60.00%
Fine Straight Investments Limited (快速投資有限公司)	Hong Kong	Property investment	Ordinary HK$2 Deferred# HK$10,000	100.00%
Sanmark Investments Limited (盛茂投資有限公司)	Hong Kong	Property investment	Ordinary HK$200 Deferred # HK$82	100.00%

42 Particulars of principal subsidiaries and jointly controlled entities (Continued)

Company name	Place of incorporation/ operation	Principal activities	Issued/registered and fully paid share capital	Effective interest held
Jointly controlled entities				
Indirectly held:				
Hubei Sinochem & Orient Fertilizer Company Limited (湖北中化東方肥料有限公司)	PRC	Sales and manufacturing of fertilizers	RMB10,000,000	55.00%
Tianjin Beifang Chemical Fertilizer Logistics and Delivery Company Limited (天津北方化肥物流配送有限公司)	PRC	Fertilizer logistics	RMB3,000,000	60.00%
Guiyang Sinochem Kailin Fertilizer Company Limited (貴陽中化開磷化肥有限公司)	PRC	Sales and manufacturing of fertilizers	RMB365,850,000	41.00%
Yunnan Three Circles-Sinochem-Cargill Fertilizer Company Limited (雲南三環中化嘉吉化肥有限公司)	PRC	Sales and manufacturing of fertilizers	US$29,800,000	25.00%
Yunnan Three-Circles Sinochem Fertilizer Company Limited (雲南三環中化化肥有限公司)	PRC	Sales and manufacturing of fertilizers	RMB250,000,000	40.00%

\# The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the respective companies or to participate in any distributions on winding up.

43 Events after the balance sheet date

On 23 January 2006, the Company granted 30,010,000 share options to certain directors and employees. These share options are exercisable at the price of HK$1.672 per share and are expiring on 22 January 2012 *(Note 29)*.

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44 Comparative figures

Due to the change of financial year end date as stated in note 2, the comparative figures presented for the balance sheet of the Company are based on the audited financial statements of the Company for the year ended 31 March 2005.

The 2004 comparative figures presented in the consolidated financial statements are those of the Fertilizer Group for the year ended 31 December 2004. Certain comparative figures have been reclassified to conform with current year's presentation.