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CORPORATE INFORMATION

Non-Executive Directors

Mr. Liu De Shu (Chairman)
Mr. Song Yu Qing (Deputy Chairman)

Executive Directors

Mr. Du Ke Ping (Chief Executive Officer)
Ms. Chen Hao

Other Non-Executive Directors

Dr. Chen Guo Gang
Dr. Stephen Francis Dowdle

Independent Non-Executive Directors

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

Chief Financial Officer

Mr. Zhang Bao Hong

Qualified Accountant

Ms. Tse Yin Hung Bonnie

Company Secretary

Mr. Navin Aggarwal, Solicitor

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Certified Public Accountants
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Legal Advisers

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Central, Hong Kong

Preston Gates & Ellis
35th Floor
Two International Finance Centre
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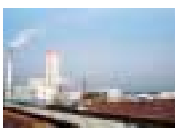
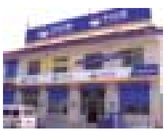
Central, Hong Kong





CHAIRMAN'S STATEMENT

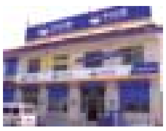
Dear shareholders,

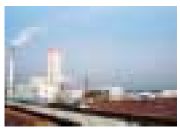
This is the first interim report released by Sinochem Hong Kong Holdings Limited (the "Company") since the completion of its acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries (the "Fertilizer Group") in July 2005. It is my honour to report to you the recent business development of the Company and its subsidiaries (the "Group").

As farmland is limited in China, a country with 1.3 billion of population, to increase grain production per unit of land by improving soil nutrients through fertilization is an important and effective strategy to ensure food security of the country. The average compound annual growth rate of the China fertilizer market reached 3.4% from 2002 to 2005, and it is expected that this upward trend will be maintained for a long period in the future.

The Group has always been upholding the business objective of achieving a "stable, sustainable and rapid growth", and continuously strengthening its business management as well as improving its competitiveness and business performance. The turnover, net profit and earnings per share of the Group for the nine months ended 30 September 2005 was HK$15,900 million, HK$587 million and HK$0.11, respectively. On behalf of the Board of Directors of the Company, I would like to extend my sincere gratitude to all shareholders for their cordial support to various business decisions and significant strategic actions of the Group. The Board of Directors has decided that for the coming three to five years commencing from 2005, 15% to 25% of the distributable profit of the Group for the year will be allocated for declaration of dividend. The Company did not declare dividend for the reporting period but will follow such dividend policy for the year. Such policy is adopted on the basis of the outstanding results achieved and sufficient loan facilities available for further business development, and that the Company has full confidence in its future profitability.

The Board of Directors believes that the remarkable results for the nine months ended 30 September 2005 is directly attributable to the acquisition of fertilizer business by the Company during the year, the cumulative effect of the successful transformation and the strategic development of the fertilizer business in recent years. As a comprehensive fertilizer enterprise with integrated production, supply and distribution and the coordinated development of upstream, midstream and downstream businesses, the profitability of the Fertilizer Group has achieved a stable, sustainable and rapid growth in recent years. During the three years from 2002 to 2004, the average compound annual growth rate of its net profits after tax is 50%, and its net profits after tax for the nine months ended 30 September 2005 increased by 50.2% over the corresponding period last year.





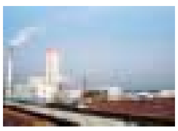
The Board of Directors believes that the remarkable results are also attributable to the management team. As veterans in the highly competitive fertilizer industry, they are fully reliable in terms of their knowledge of the industry, professionalism and commitment. The Board of Directors is confident that, on the current level of remarkable performance, they will work more diligently and make greater contributions to the business development and profitability of the Group.

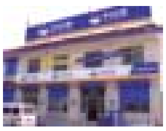
Subsequent to the injection of the fertilizer business into the Company in July 2005, in compliance with the requirements set out in the Code on Corporate Governance Practice (the "Code"), the Board of Directors has established the policies of the Board of Directors in accordance with the recommendations given by the Code. The Company has set up a nomination committee and a remuneration committee as well as perfected its audit committee. Various policies and procedures of operations management have been amended and refined, making the governance and operation procedures of the Group in compliance with international practices.

In 2006, which is the first year of the national 11th Five-Year Plan period, the Chinese Government will continue to give ever greater support to the agricultural industry. The Group will leverage on such opportunity to strive for a stable, sustainable and rapid development. With distribution playing the leading role, the Company will continue to steadfastly carry out the development strategy of integrated business chain of production, supply and marketing and sales. Taking advantage of the fund raising platform and system innovative abilities built up from the listing on the Stock Exchange of Hong Kong Limited, the Group will bring into full play of the synergy of its integrated operations, consolidating the sourcing channels and market position of high quality imported fertilizer business, increasing the scale of domestic fertilizer production and operations, and meanwhile enhancing the influence and competitiveness in China's major agricultural regions of the "three-in-one" marketing and distribution service system which combines downstream sales, storage and logistics and agrichemical services. The Company aims to develop "Sinochem Fertilizer" to be the leading brand name in China's agricultural inputs industry, constantly creating high and sustainable returns to the shareholders.

Liu De Shu
Chairman

Hong Kong, 19 December 2005





MANAGEMENT REPORT

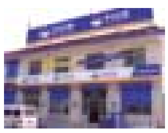
Dear shareholders,

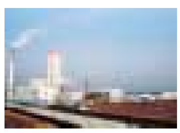
Since the successful acquisition of Fertilizer Group in July 2005, the new management team of the Group, with the trust and support of the Board of Directors (the "Board") and being accountable to the Board and shareholders, has been leading the company pushing ahead with our business expansion and strategic development. With active and effective efforts in setting up internal control system, core innovation abilities -and streamlining of human resources, the Group has achieved breakthrough performance. The Group has consolidated its leading position and core competency in China's fertilizer market, making a great stride towards its objective of becoming an outstanding listed company in the capital market of Hong Kong.

I. Financial Results

For the nine months ended 30 September 2005, fertilizer business, the core business of the Group, maintained its strong growth momentum as seen in recent years with substantial increase in overall turnover and net profit. The annual turnover of the principal businesses of the Fertilizer Group from 2002 to 2004 was HK$7,300 million, HK$9,800 million and HK$11,800 million, respectively, with an average annual growth rate of 27%. On this basis, turnover for the nine months ended 30 September 2005 still recorded another substantial increase of 53% to HK$15,900 million for corresponding period last year. Annual net profit from the principal businesses of the Fertilizer Group from 2002 to 2004 was HK$226 million, HK$391 million and HK$511 million, respectively, up over 50% annually. On top of this, net profit after tax for the nine months ended 30 September 2005 still recorded an increase of 50.2% to HK$587 million over the corresponding period last year. The above outstanding performance was also attributable to the Fertilizer Group's combined efforts in steadfastly carrying out its marketization strategy, constantly improving the integrated operation model of production, supply and sales, as well as enhancing the management standard, in addition to the Group's endeavours in business expansion.

In terms of the profit structure, net profit after tax from trading and distribution businesses was HK$500 million, up 42% from the same period last year and accounted for 85% of the total net profit after tax of the Group. Net profit after tax from production business was HK$87 million, up 129% from the same period last year and accounted for 15% of the total net profit after tax of the Group. The simultaneous and rapid growth in profits from both businesses reflects the emergence of synergy effect of the total integrated operation model combining upstream, midstream and downstream businesses. As a result, the profit base of the Group was further consolidated.



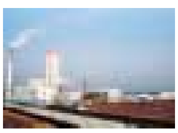


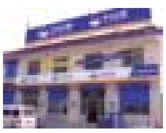
II. Business and Management Review

The Group adopts a distribution-oriented development strategy featuring integrated fertilizer production, supply and sales. With an emphasis on distribution service and through establishing long-term and stable strategic relationships with leading domestic and overseas suppliers, as well as by investing in domestic fertilizer production enterprises, the Group provides stable, sufficient and a comprehensive range of quality fertilizer products to the downstream distribution network. Meanwhile, warehousing and logistics support to the marketing and distribution network plus agrichemical services provided free for public welfare have jointly promoted the continuous increase in product sales. With the practice in recent years, such an integrated operation model, which is in line with the development of the Chinese fertilizer industry, has demonstrated its strong competitiveness and ability for sustainable development.

(1) Production business

As at 30 September 2005, the Group had equity interest in seven fertilizer production enterprises with an aggregate fertilizer production capacity of 2.73 million tons, increasing by 17% over the corresponding period of 2004. This has further strengthened the position of the Group as a leading fertilizer producer in China. The supply of products by these seven production enterprises to the downstream distribution network continues to grow and has gradually become a major source of product supply of the Group. At the same time, net profit after tax contributed by these production enterprises as a percentage of the total net profit of the Group also increased from 10% of the corresponding period of 2004 to 15% of the current reporting period.





II. Business and Management Review (continued)

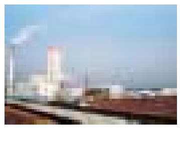
(2) Sourcing operations

The Group has established diversified sourcing channels in the global marketplace for the stable and quality supply of fertilizers. In the international market, the Group continues to strengthen its strategic cooperation with the leading global suppliers by the establishment of exclusive product distribution agreement for the China market. In terms of sales the Group is the largest distributor of imported fertilizers in China, maintaining market shares of over 50% for both imported potash and compound fertilizers. Throughout the years, the Group has successfully established a leading position in the imported fertilizer market with relatively strong negotiating power, market share and brand awareness. On the other hand, the purchase volume of domestic fertilizers of the Group has been on the rise, which is supported by the established relationship with various leading producers. Purchase of domestic fertilizers from January to September 2005 amounted to 3.12 million tons, increasing the percentage from 17% during the same period of 2004 to 32% of the total purchases of the Group. In addition, the Group has actively readjusted and enhanced its product mix according to market preference, thereby successfully catering to the various needs of different customers in different regions.

(3) Sales operation

The Group is the largest fertilizer products distributor in China. For the nine months ended 30 September 2005, sales volume was 9.16 million tons, representing an increase of 30% over the same period last year. In particular, sales volume of domestic fertilizers was 3.38 million tons, accounting for 37% of the total sales volume and representing an increase of 111% over the same period last year. Sales volume of imported fertilizers was 5.17 million tons, accounting for 56% of the total sales volume and representing an increase of 2% over the same period last year. While substantially maintaining the sales of imported fertilizers, the Group has been strengthening its profitability by further expanding the operating scale of the domestic fertilizer business.





II. Business and Management Review (continued)

(3) Sales operation (continued)

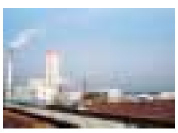
The Group has the most extensive fertilizer marketing and distribution network in China, which covers 20 major agricultural provinces, accounting for approximately 71% of the total arable land of the country. As at 30 September 2005, the Group has set up 14 branch companies and nearly 1000 sales outlets throughout the country, which covers 5 more provinces compared with last year. For the nine months ended 30 September 2005, products sold via the distribution network amounted to 6.17 million tons, accounting for 67% of total sales volume and representing the continuing development of our end-user oriented marketing and sales model.

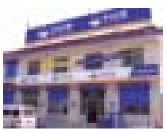
Moreover, the Group adopted other sales channels such as wholesales and direct sales depending on the situations of different regions. For regions not covered by the distribution network, the Group strived to expand sales of its products by wholesaling to major customers in the area. In addition, the Group has enhanced customer loyalty and expanded its customer base by directly selling basic ingredients such as nitrogen-based, phosphate-based and potash fertilizers to producers of compound fertilizers.

(4) Warehousing and logistics and agrichemical services

To complement its marketing and distribution strategy, the Group has preliminarily established a logistics operation system with a marketing service focus. Apart from strategic cooperation relationship with major destination ports of imported fertilizers such as Shanghai and Zhanjiang, the Group has also set up a tiered logistics network with large distribution centres and secondary distribution centres in inland areas, achieving a total warehousing capacity of 2.6 million tons.

Social responsibility is of prime concern to the Group. In line with its efforts in building up positive public image, the Group has been providing farmers with free agrichemical services such as education on scientific fertilization. In particular, the Group has organised a diverse range of agrichemical services and activities, such as featured sections or articles in media like radio and trade presses, onsite exchange with agricultural experts as well as toll-free enquiry hotlines. Consequently, the image of "Sinochem Fertilizer" brand has been favourably uplifted.

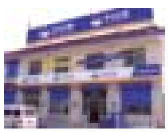


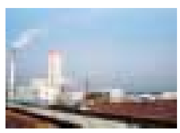


II. Business and Management Review (continued)

(5) Internal control and management

The Group's management believes that scientific and standardised management is the cornerstone for the Group's long-term development. Over the past few years, standardised transaction and contract approval processes have been set up for the key sections of principal operations of the Group, including investment (upstream), product procurement and distribution (downstream). An information management platform comprising the SAP system and distribution management system ("DMS") has been implemented for cross-checking and monitoring of logistics, cash flow and information flow. Credit investigation and credit rating procedures were carried out on suppliers and customers to exercise rigid credit control, while a vigilant product tracking system was in place for product procurement and sales. Centralised and integrated capital management system for both overseas and domestic operations was adopted to consolidate the cash-oriented financial monitoring and approving of various transactions. In addition, the Group has optimised its internal control measures through continued review and identification of problems with an internal auditing mechanism. Such potent internal control systems have contributed to the sustained and rapid growth of the fertilizer business in recent years. Since the injection of the fertilizer business into the Company this year, the Group's management has leveraged on the systematic innovation advantage to further optimise the internal control and management systems of the Group. As such, the Group has enhanced its risk prevention ability and operating efficiency, laying down a robust institutional basis for its long-term, healthy and rapid growth.



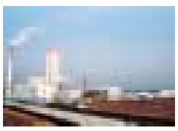


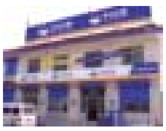
III. Outlook

Building on the solid track record for the period of this report, the Group is expected to maintain its substantial growth momentum in the fourth quarter of 2005. In the upcoming first quarter of 2006, China will enter into the cultivation season from south to north, which means the high season for fertilizer sales for the Group. Apart from taking a multitude of measures to ensure the attainment of operating goals in 2005, the Group is also preparing for the achievement of higher development objectives.

The management of the Group will continue to carry out steadfastly the development strategy featuring distribution-oriented and integrated business chain of production, supply and sales, as well as to further improve internal control mechanisms to ensure safe and highly efficient operations. Together with the whole staff, the management will uphold the spirit of diligence and professionalism so as to completely attain various operating goals and the development objective, and maintain stable, sustained and fast increase in profit, presenting the Board with satisfactory results and the shareholders with higher returns.

Hong Kong, 19 December 2005





MANAGEMENT DISCUSSION AND ANALYSIS

On 27 July 2005, the Company completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries (the "Fertilizer Group") from Sinochem Hong Kong (Group) Company Limited for a consideration of HK$5.05 billion which was settled by issue of shares of the Company (the "Transaction"). Details of the Transaction were set out in the circular of the Company dated 13 June 2005. The Group's current principal activities include mainly the procurement, production and sale of fertilizers and related products.

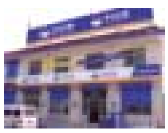
The Transaction has been accounted for as a reverse acquisition under Hong Kong Financial Reporting Standard since the issuance of the Company's shares resulted in Sinochem Hong Kong (Group) Company Limited becoming the controlling shareholder of the Company. For accounting purposes, in preparing the condensed consolidated financial statements, the Fertilizer Group is treated as the acquirer while the Company and its subsidiaries, which were mainly engaged in property investment and holding of properties held for sale prior to the completion of the Transaction, were deemed to have been acquired by the Fertilizer Group. Accordingly, the condensed consolidated financial statements for the nine months ended 30 September 2005 have been prepared on the basis of continuation of the consolidated financial statements of the Fertilizer Group. The comparative financial information of the corresponding period for the nine months ended 30 September 2005 is those of the financial information of the Fertilizer Group.

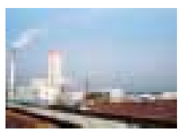
An analysis of the interim results of the Group for the nine months ended 30 September 2005 are as follows:

I. Turnover

Turnover of the Group for the nine months ended 30 September 2005 was HK$15,859,039,000, an increase of approximately 53.3% over HK$10,342,784,000 for the corresponding period of 2004. This was mainly attributable to improved sale capability leading to sharp increase in sales volume, as well as the significant rise in average selling price of major commodities.

While the Group's total turnover increased, turnover of potash fertilizers remained stable; Benefited from the increase in sales volume of domestic products, turnover of nitrogen-based fertilizers and compound fertilizers increased significantly; while turnover of phosphate-based fertilizers declined mainly due to reduced imports as a result of the increase in price of imported phosphate-based fertilizers.





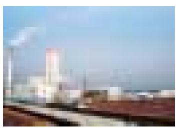
I. Turnover (continued)

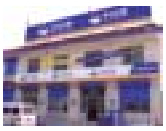
The table below shows the turnover of the major products of the Group during the two interim reporting periods.

	Nine months ended 30 September			
	2005		2004	
	Turnover		Turnover	
	HK$'000	***%***	*HK$'000*	*%*
Potash fertilizers	**8,087,348**	**51.00**	5,356,008	51.78
Phosphate-based fertilizers	**2,215,009**	**13.97**	2,603,276	25.17
Nitrogen-based fertilizers	**2,725,445**	**17.18**	1,062,811	10.28
Compound fertilizers	**2,219,495**	**14.00**	1,099,981	10.64
Others	**611,742**	**3.85**	220,708	2.13
Total	**15,859,039**	**100**	10,342,784	100

II. Gross profit margin

Overall gross profit margin of the Group maintained stable in the range of 7% to 8%. During the nine months ended 30 September 2005, the gross profit margin of various products showed the following changes: gross profit margin of potash fertilizers increased steadily and was higher than the average; gross profit margin of compound fertilizers decreased as a result of the change in the sales mix of imported and domestic products but still maintained at the average level; gross profit margin of phosphate-based fertilizers and nitrogen-based fertilizers generally remained stable and were lower than the average.





III. Expenditures

1. Selling and distribution expenses

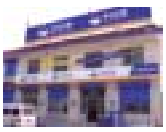
Selling and distribution expenses of the Group, which are closely related to the sales volume, mainly include transport and storage expenses incurred in the sale process. Selling and distribution expenses of the Group for the nine months ended 30 September 2005 were HK$297,966,000 (2004: HK$252,006,000), an increase of about 18.3% as compared with the corresponding period of 2004. The increase was mainly because more selling and distribution expenses were incurred, which was in line with the increase of 29.6% in sales volume and additional logistics and storage expenses were incurred for the expansion of downstream sales business.

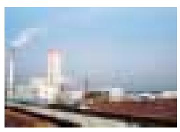
2. Administrative expenses

Administrative expenses of the Group for the nine months ended 30 September 2005 were HK$148,176,000 (2004: HK$79,911,000), an increase of about 85.4% as compared with the corresponding period of 2004. The increase was mainly attributable to the Group's further expansion of its sales network and the substantial growth in the number of sales outlets and employees. In addition, the administrative expenses of Sinochem Chongqing Fuling Chemicals Co., Ltd., which was consolidated in this interim financial report, increased by about HK$29,999,000 over the corresponding period of 2004, leading to an increase in the administrative expenses of the Group.

3. Finance costs

Finance costs of the Group for the nine months ended 30 September 2005 were HK$82,050,000 (2004: HK$32,673,000), an increase of about 151.1% as compared with the corresponding period of 2004, which was mainly attributable to an increase in the utilisation of funds as a result of increased sales activities. In addition, changes in external financing environment have led to increase in finance costs. From September 2004 onwards, there have been multiple consecutive increases in the interest rate for US dollar, and the basic lending rate of US dollar has increased nearly twofold.





IV. Share of profit of jointly controlled entities

For the nine months ended 30 September 2005, the share of profit of jointly controlled entities of the Group amounted to HK$50,607,000, representing an increase of about 106.4% as compared with HK$24,523,000 for the corresponding period of 2004; the increase was mainly due to the good financial performance of and increased contributions from the Group's jointly controlled entities in 2005.

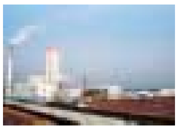
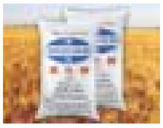
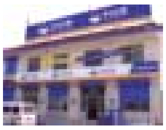
V. Net profit and net profit margin

For the nine months ended 30 September 2005, the Group achieved net profit of HK$586,907,000, an increase of about 50.2% as compared with HK$390,735,000 in the corresponding period of 2004, which was mainly due to a significant expansion in the scale of operation, stable profit margin, increased share of profits from jointly controlled entities and a reduction in the effective tax rate.

Net profit margin of the Group remained stable in the range of 3.5% to 4%.

VI. Cash flow

For the nine months ended 30 September 2005, there was a slight inflow in the Group's overall cash flow. There was a cash outflow from operating activities, and a relatively larger cash inflow from financing activities. Cash outflow from operating activities was HK$282,450,000, which was due to the fact that the Group was in the stage of vigorously expanding its operation scale in line with its development strategy. This resulted in a corresponding increase in inventories as well as an increase in application of funds.

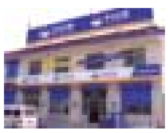




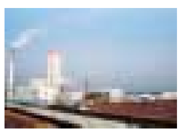
VII. Inventories

The table below shows the inventories balance of the major products of the Group as at 30 September 2005 and 31 December 2004.

	30 September 2005 *HK$'000*	31 December 2004 *HK$'000*
Potash fertilizers	**2,470,102**	2,159,778
Phosphate-based fertilizers	**921,575**	637,975
Nitrogen-based fertilizers	**178,184**	613,111
Compound fertilizers	**804,955**	377,717
Others	**208,000**	113,990
Total	**4,582,816**	3,902,571

As at 30 September 2005, the Group's inventories balance was HK$4,582,816,000, representing an increase of about 17.4% as compared with 31 December 2004. The Increase in inventories was mainly attributable to: firstly, the further expansion of the operation scale of the Group; secondly, the characteristic of the fertilizer industry featuring balanced all-year round production but seasonal selling, requiring the reserving of certain amount of inventories; thirdly, the further expansion of the distribution network of the Group, leading to extension of sales chain and, in turn, an increase in inventories level. In addition, the Group also increased its purchase for strategic inventory. Due to the same reasons, the average inventory turnover days increased from 98 days for the nine months ended 30 September 2004 to 104 for the nine months ended 30 to September 2005.





VIII. Key financial indicators

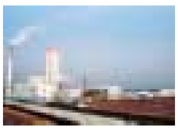
The table below shows a comparison of the key financial indicators of the Group for the two interim reporting periods.

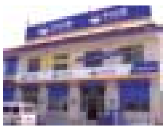
	Nine months ended 30 September	
	2005	2004
Return on equity (Note 1)	**16.90%**	20.18%
Adjusted return on equity (excluding the effect of the increase in equity as a result of the issue of new shares upon listing)	**21.69%**	20.18%

	30 September	31 December
	2005	2004
Current ratio	**1.51**	1.27
Capital to liability ratio (Note 2)	**135%**	232%

Note 1: Calculated based on profit attributable to shareholders of the Company for the period divided by total equity as at the balance sheet date.

Note 2: Calculated based on total liabilities as at the balance sheet date divided by total equity as at the balance sheet date.



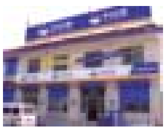


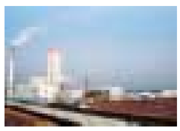
VIII. Key financial indicators (continued)

For the nine months ended 30 September 2005, the Group's return on equity was 16.9%, slightly reduced as compared to the corresponding period in 2004, which was mainly attributable to a sharp increase of equity as a result of the increase of HK$767,766,000 in equity by the issue of new shares upon listing. The financial information for the corresponding period of 2004 is not comparable. The adjusted return on equity excluding such increase was 21.69% for the nine months ended 30 September 2005, a slight increase as compared to the corresponding period in 2004.

As at 30 September 2005, the Group had a current ratio of 1.51, representing an increase of 18.45% as compared with 1.27 as at the end of 2004. There was improvement in short-term solvency.

As at 30 September 2005, the Group had a capital to liability ratio of 135%, representing a substantial decrease from 232% at the end of 2004. Long-term solvency was improved, which was mainly attributable to the newly issued share capital which led to an increase of HK$767,766,000 in equity upon listing.





IX. Liquidity and Financial Resources

The Group's principal sources of financing included cash generated from operations, bank loans as well as proceeds from issue of new shares of the Company. All the financial resources were primarily used for the Group's trading and distribution, production and operation, as well as repayment of liabilities as they fall due or related capital expenditures.

As at 30 September 2005, cash and cash equivalents of the Group were HK$267,700,000, mainly denominated in Renminbi and US dollar.

Set out below are profiles of long-term and short-term loans of the Group:

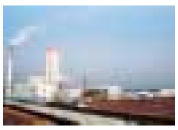
	30 September 2005	31 December 2004
	HK$'000	*HK$'000*
Secured	**201,302**	180,502
Guaranteed	**13,014**	1,328,983
Unsecured	**1,505,331**	260,221
	1,719,647	1,769,706

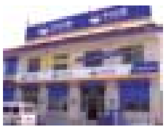
The Group intends to meet its repayment obligations of the above loans by internal resources.

As at 30 September 2005, the Group had banking facilities of HK$7.069 billion, including US$0.385 billion and RMB3.915 billion denominated in respective currencies.

X. Foreign Currency Risk Management

The Group is exposed to foreign exchange risks because substantially all of the Group's sales are denominated in Renminbi while a significant portion of the Group's cost of sales is denominated in foreign currencies.The Group did not engage in any foreign exchange hedging activities.





XI. Charge on Assets

As at 30 September 2005, certain property, plant and machinery, investment properties, land use rights and properties held for sale with aggregate net book value of HK$325,066,000 were pledged as securities for the Group's short-term bank loans of HK$96,279,000 and long-term bank loans of HK$105,023,000. In addition, the Group's bank deposits of HK$2,773,000 was pledged as securities for the Group's banking facilities.

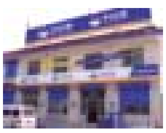
XII. Contingent Liabilities

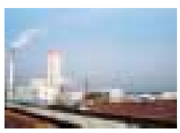
As at 30 September 2005, the Group had contingent liabilities amounting to HK$531,771,000 in respect of letter of credit facilities which are mainly used for purchase of fertilizer products.

XIII. Capital Commitment

	30 September 2005 *HK$'000*	31 December 2004 *HK$'000*
Assets under construction		
Contracted but not provided for	**65,983**	229,498
Authorised but not contracted for	**18,386**	17,358
	84,369	246,856
Investment in a jointly controlled entity, Yunnan Three-Circles Sinochem Fertilizer Company Limited	**134,267**	131,616
	218,636	378,472

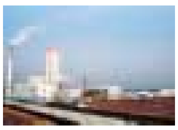
The amount of "contracted but not provided for" referred to the construction of plant and machinery of Sinochem Chongqing Fuling Chemical Fertilizer Company Limited ("Sinochem Fuling"). The amount of "authorised but not contracted for" referred to the Group's commitments in respect of purchase of fixed assets, such as office equipment.

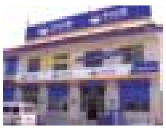




XIV. Major Investment

For the nine months ended 30 September 2005, the Group's major investment of HK$132,866,000 represented the acquisition of production lines and related facilities for the production of monoammonium phosphate for Sinochem Fuling, a subsidiary of the Group.





INDEPENDENT REVIEW REPORT
TO THE BOARD OF DIRECTORS OF
SINOCHEM HONG KONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 22 to 63.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

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

Review work performed

We conducted our review in accordance with Statement of Auditing Standard 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the nine months ended 30 September 2005.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 19 December 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

		Unaudited Nine months ended 30 September	
	Note	**2005**	2004
		HK$'000	*HK$'000*
Turnover	4	**15,859,039**	10,342,784
Cost of sales		**(14,700,883)**	(9,525,893)
Gross profit		**1,158,156**	816,891
Other revenues	4	**13,439**	20,510
Selling and distribution expenses		**(297,966)**	(252,006)
Administrative expenses		**(148,176)**	(79,911)
Other operating income, net		**29,675**	8,155
Operating profit	4 and 5	**755,128**	513,639
Finance costs	6	**(82,050)**	(32,673)
Share of profits of jointly controlled entities		**50,607**	24,523
Profit before taxation		**723,685**	505,489
Taxation	7	**(112,562)**	(104,772)
Profit for the period		**611,123**	400,717
Profit attributable to:			
Shareholders of the Company		**586,907**	390,735
Minority interests		**24,216**	9,982
		611,123	400,717
Basic earnings per share for profit attributable to the shareholders of the Company	8	**11.21 HK cents**	7.74 HK cents

CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30 SEPTEMBER 2005

	Note	**Unaudited 30 September 2005 HK$'000**	(Restated) Audited 31 December 2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	9	**633,839**	507,994
Investment properties	9	**70,000**	—
Land use rights	9	**41,568**	42,659
Goodwill	9	**356,503**	—
Interests in jointly controlled entities		**367,842**	351,698
Available-for-sale financial assets		**14,827**	—
Investment securities		**—**	14,198
		1,484,579	916,549
Current assets			
Properties held for sale		**84,000**	—
Inventories		**4,582,816**	3,902,571
Loans receivable		**—**	205,462
Trade and bills receivables	10	**1,111,651**	533,193
Other receivables and prepayments	11	**642,124**	1,052,677
Bank balances and cash		**270,473**	214,064
		6,691,064	5,907,967
Total assets		**8,175,643**	6,824,516

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

AS AT 30 SEPTEMBER 2005

	Note	**Unaudited 30 September 2005 *HK$'000***	(Restated) Audited 31 December 2004 *HK$'000*
EQUITY			
Equity attributable to the shareholders of the Company			
Issued equity	12	**767,766**	78
Reserves		**2,514,399**	1,900,788
		3,282,165	1,900,866
Minority interests		**191,083**	155,436
Total equity		**3,473,248**	2,056,302
LIABILITIES			
Non-current liabilities			
Long-term loans	13	**240,448**	130,701
Deferred tax liabilities		**29,781**	2,107
		270,229	132,808
Current liabilities			
Trade and bills payables	14	**2,324,025**	1,431,328
Other payables and accruals	15	**540,173**	1,456,682
Taxation payable		**88,769**	108,391
Short-term loans	16	**1,464,366**	1,633,364
Current portion of long-term loans	13	**14,833**	5,641
		4,432,166	4,635,406
Total liabilities		**4,702,395**	4,768,214
Total equity and liabilities		**8,175,643**	6,824,516
Net current assets		**2,258,898**	1,272,561
Total assets less current liabilities		**3,743,477**	2,189,110

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

	Unaudited							
	Attributable to shareholders of the Company							
	Issued equity HK$'000	Merger reserve HK$'000	Capital reserve HK$'000	Statutory reserves HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2005, as previously reported as equity	**78**	**245,632**	**270,225**	**272,665**	**104**	**1,112,162**	**—**	**1,900,866**
Balance at 1 January 2005, as previously separately reported as minority interests	**—**	**—**	**—**	**—**	**—**	**—**	**155,436**	**155,436**
Balance at 1 January 2005	**78**	**245,632**	**270,225**	**272,665**	**104**	**1,112,162**	**155,436**	**2,056,302**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**586,907**	**24,216**	**611,123**
Currency translation differences	**—**	**—**	**—**	**—**	**26,704**	**—**	**3,522**	**30,226**
Capital contributions	**—**	**—**	**—**	**—**	**—**	**—**	**10,177**	**10,177**
Dividend paid	**—**	**—**	**—**	**—**	**—**	**—**	**(2,268)**	**(2,268)**
Issue of ordinary shares, net of issuing expenses (note 12)	**482,325**	**—**	**—**	**—**	**—**	**—**	**—**	**482,325**
Acquisition of subsidiaries (note 17)	**285,363**	**—**	**—**	**—**	**—**	**—**	**—**	**285,363**
Balance at 30 September 2005	**767,766**	**245,632**	**270,225**	**272,665**	**26,808**	**1,699,069**	**191,083**	**3,473,248**
Balance at 1 January 2004, as previously reported as equity	—	109,370	126,293	206,336	587	667,666	—	1,110,252
Balance at 1 January 2004, as previously separately reported as minority interests	—	—	—	—	—	—	41,501	41,501
Balance at 1 January 2004	—	109,370	126,293	206,336	587	667,666	41,501	1,151,753
Profit for the period	—	—	—	—	—	390,735	9,982	400,717
Currency translation differences	—	—	—	—	(573)	—	—	(573)
Capital contributions	—	136,184	143,932	—	—	—	7,732	287,848
Acquisition of subsidiaries	—	—	—	—	—	—	96,857	96,857
Balance at 30 September 2004	—	245,554	270,225	206,336	14	1,058,401	156,072	1,936,602

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2005

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Net cash (outflow)/inflow from operating activities	**(282,450)**	204,105
Net cash inflow from investing activities	**92,822**	2,798
Net cash inflow from financing activities	**235,745**	162,167
Net increase in cash and cash equivalents	**46,117**	369,070
Cash and cash equivalents at 1 January	**214,064**	258,612
Effect of foreign exchange rate changes	**7,519**	(573)
Cash and cash equivalents at 30 September	**267,700**	627,109
Analysis of cash and cash equivalents:		
Bank balances and cash	**270,473**	627,109
Less: pledged bank deposits	**(2,773)**	—
	267,700	627,109

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1 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 distribution and production of fertilizers 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, credited as fully paid at an issue price of HK$1.00 per new share. The Transaction was completed on 27 July 2005.

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 condensed 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 condensed 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 condensed consolidated financial statements at their historical carrying values prior to the Transaction;

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

1 Reverse acquisition and change of financial year end date (continued)

(a) Reverse acquisition (continued)

(iii) the amount recognised as issued equity in these condensed consolidated financial statements, which represents the share capital and share premium in the condensed 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 12 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 condensed consolidated financial statements is that of the Fertilizer Group.

In preparing these condensed 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 financial statements since the completion date of the Transaction. Further details of the impact of the acquisition are set out in note 17 "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.

2 Basis of preparation and accounting policies

These condensed consolidated financial statements have been prepared for the nine months ended 30 September 2005 with comparative information for the same period in last year.

These condensed consolidated financial statements have been prepared in accordance with the requirements of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). They should be read in conjunction with the Accountants' Report on the Fertilizer Group contained in Appendix I to the Company's circular dated 13 June 2005 issued in connection with the Transaction.

The accounting policies and methods of computation used in the preparation of these condensed consolidated financial statements are consistent with those used in the aforementioned Accountants' Report except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

These condensed consolidated financial statements have been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing these statements. The HKFRS standards and interpretations that will be applicable at 31 December 2005, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing these condensed consolidated financial statements.

3 Changes in principal accounting policies

(a) Effect of adopting new HKFRS

In 2005, the Group adopted the new/revised standards 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 28	Investments in Associates
HKAS 31	Investments in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings Per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 31 and 33, HKFRS 5 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, 28, 31 and 33, HKFRS 5 and HKAS-Int 21 had no material effect on the Group's policies.

3 Changes in principal accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

— 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 HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of available-for-sale financial assets.

(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 the other operating income.

(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 change 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;

3 Changes in principal accounting policies (continued)

(a) Effect of adopting new HKFRS (continued)

— 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 investments in 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**
	30 September 2005 HK$'000	31 December 2004 HK$'000	**30 September 2005 HK$'000**
Decrease in property, plant and equipment	**(41,568)**	(42,659)	**—**
Increase in land use rights	**41,568**	42,659	**—**
Decrease in investment securities	**—**	—	**(14,827)**
Increase in available-for-sale financial assets	**—**	—	**14,827**

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

(b) New principal accounting policies

The accounting policies used for the condensed consolidated financial statements for the nine months ended 30 September 2005 are the same as those set out in the aforementioned Accountants' Report in Note 2 except for the following:

3 Changes in principal accounting policies (continued)

(b) New principal accounting policies (continued)

3.1 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 HK dollars, which is the Company's functional and presentation currency. The functional currency of the Group's subsidiaries in PRC is Renminbi.

(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, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(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;

3 Changes in principal accounting policies (continued)

(b) New principal accounting policies (continued)

3.1 Foreign currency translation (continued)

(c) Group companies (continued)

(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 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.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences 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.

3.2 Property, plant and equipment

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

3.3 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.

3 Changes in principal accounting policies (continued)

(b) New principal accounting policies (continued)

3.3 Investment properties (continued)

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

After initial recognition, investment property is carried at fair value and valuations are reviewed annually by external valuers. Changes in fair values are recognised in the income statement.

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.

3.4 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, associated companies and jointly controlled entities at the dates of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies and jointly controlled entities is included in interests in associated companies and jointly controlled entities. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. 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.

3 Changes in principal accounting policies (continued)

(b) New principal accounting policies (continued)

3.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested 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).

3.6 Investments

The Group classifies its investments in the following categories: loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. The Group determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(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 arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in 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.

3 Changes in principal accounting policies (continued)

(b) New principal accounting policies (continued)

3.6 Investments (continued)

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

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. Unrealised gains and losses arising from changes in the fair value of 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 are included in the income statement as gains or losses from investment securities.

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 refined to reflect the issuer's specific circumstances.

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 in determining whether 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.

3 Changes in principal accounting policies (continued)

(b) New principal accounting policies (continued)

3.7 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted-average basis. 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). 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, 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 nine months ended 30 September 2004 and 2005.

3.8 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. 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.

3 Changes in principal accounting policies (continued)

(b) New principal accounting policies (continued)

3.9 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.

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.

3.10 Share capital

Ordinary shares are classified as equity and incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

4 Turnover and segment information

The Group is principally engaged in sale and production of fertilizers and agricultural related products and property investment. Turnover and other revenues recognised during the period are as follows:

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Turnover		
Sale and production of fertilizers and agricultural related products	**15,855,358**	10,342,784
Rental income	**3,681**	—
	15,859,039	10,342,784
Other revenues		
Revenue from agency services	**6,334**	7,199
Dividend income from unlisted investments	**1,627**	2,150
Interest income from		
— Loans receivable	**2,140**	9,650
— Bank deposits	**3,338**	1,070
Other rental income	**—**	441
	13,439	20,510
Total turnover and revenues	**15,872,478**	10,363,294

The Group is organised into three main business segments:

Sourcing and distribution	—	sourcing and distribution of fertilizers and agricultural related products
Production	—	production and sale of fertilizers
Property investment	—	provision of rental services and holding properties for sale

4 Turnover and segment information (continued)

(a) *Primary reporting format — business segments*

An analysis of turnover and contribution to the Group's results and capital expenditure by business segments is set out below:

	Nine months ended 30 September 2005 (Unaudited)				
	Sourcing and distribution	**Production**	**Property investment**	**Elimination**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Income statement					
External sales	**14,570,693**	**1,284,665**	**3,681**	**—**	**15,859,039**
Inter-segment sales	**43,005**	**445,429**	**—**	**(488,434)**	**—**
Total and segment turnover	**14,613,698**	**1,730,094**	**3,681**	**(488,434)**	**15,859,039**
Segment results	**688,038**	**77,014**	**666**		**765,718**
Unallocated costs					**(10,590)**
Operating profit					**755,128**
Finance costs	**(53,600)**	**(27,882)**	**(568)**		**(82,050)**
Share of profits of jointly controlled entities	**—**	**50,607**	**—**		**50,607**
Profit before taxation					**723,685**
Taxation					**(112,562)**
Profit for the period					**611,123**
Other information					
Capital expenditure	**12,611**	**135,924**	**2**		**148,537**
Depreciation and amortisation	**3,165**	**32,693**	**24**		**35,882**

4 Turnover and segment information (continued)

(a) Primary reporting format — business segments (continued)

	Nine months ended 30 September 2004 (Unaudited)			
	Sourcing and distribution HK$'000	Production HK$'000	Elimination HK$'000	Total HK$'000
Income statement				
External sales	9,722,159	620,625	—	10,342,784
Inter-segment sales	30,483	116,752	(147,235)	—
Total and segment turnover	9,752,642	737,377	(147,235)	10,342,784
Segment results	488,941	32,301		521,242
Unallocated costs				(7,603)
Operating profit				513,639
Finance costs	(24,479)	(8,194)		(32,673)
Share of profits of jointly controlled entities	—	24,523		24,523
Profit before taxation				505,489
Taxation				(104,772)
Profit for the period				400,717
Other information				
Capital expenditure	1,170	29,928		31,098
Depreciation and amortisation	4,092	10,708		14,800

4 Turnover and segment information (continued)

(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.

5 Operating profit

Operating profit is stated after crediting and charging the following:

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Crediting:		
Government grants (Note below)	**22,232**	—
Net exchange gain	**17,300**	6,717
Charging:		
Cost of inventories sold	**14,080,140**	9,043,343
Staff costs	**82,017**	49,856
Amortisation of land use rights	**1,926**	226
Depreciation of property, plant and equipment	**33,956**	14,574
Operating lease rental in respect of properties	**8,455**	6,134
Write down of inventories to net realisable value	**11,841**	—
Provision for doubtful trade receivables	**454**	714
Loss on disposal of property, plant and equipment	**15**	—

Note: This represents government subsidy 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 ton.

6 Finance costs

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Interest expense on bank loans	**77,555**	27,896
Others	**4,495**	4,777
	82,050	32,673

7 Taxation

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Current taxation		
Hong Kong profits tax	**932**	358
PRC enterprise income tax	**95,324**	108,865
Deferred taxation	**16,306**	(4,451)
	112,562	104,772

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period.

PRC enterprise income tax has been provided on the estimated assessable profits of subsidiaries operating in the PRC at the applicable rate of taxation of 33%, or lower, depending on the preferential income tax treatments enjoyed by certain PRC subsidiaries of the Group.

Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the tax jurisdictions in which the Group operates.

8 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 1 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$586,907,000 (2004: HK$390,735,000) and on the weighted-average number of 5,233,914,297 (2004: 5,050,000,000) ordinary shares in issue during the nine months ended 30 September 2005.

Diluted earnings per share has not been presented as the Company has no potential dilutive ordinary shares during the nine months ended 30 September 2005.

9 Capital expenditure

	Unaudited			
	Property, plant and equipment *HK$'000*	**Investment properties** *HK$'000*	**Land use rights** *HK$'000*	**Goodwill (Note 1)** *HK$'000*
Net book value as at 1 January 2005	507,994	—	42,659	—
Additions	148,537	—	—	—
Acquisition of subsidiaries *(note 17)*	140	70,000	—	356,503
Disposals	(496)	—	—	—
Depreciation/amortisation charge	(33,956)	—	(1,926)	—
Exchange differences	11,620	—	835	—
Net book value as at 30 September 2005	633,839	70,000	41,568	356,503

10 Trade and bills receivables

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Trade receivables		
Jointly controlled entity	**—**	2,985
Related parties *(note 20(b))*	**377,415**	54
Third parties	**349,670**	152,927
	727,085	155,966
Bills receivables	**384,566**	377,227
	1,111,651	533,193

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

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
1 to 3 months	**278,283**	123,208
4 to 6 months	**433,260**	12,546
7 months to one year	**6,408**	13,763
One to two years	**6,613**	3,802
Over two years	**2,521**	2,647
	727,085	155,966

11 Other receivables and prepayments

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Advance payments to suppliers		
Jointly controlled entities	**59,927**	29,031
Related parties	**27,058**	192,575
Third parties	**448,447**	765,652
Prepaid expenses	**2,831**	2,429
Other receivables and prepayments	**103,861**	62,990
	642,124	1,052,677

12 Issued equity

	The Group	
	Number of shares	**Issued equity** HK$'000
	5,807,949,828	767,766

Due to the application of reverse acquisition basis of accounting, the amount of issued equity, which represents the share capital and share premium in the condensed consolidated balance sheet of the Group, is the sum of the issued share capital 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 17 below), and the issue of new shares as described in note (i) 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.

12 Issued equity (continued)

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

	The Group	
	Number of shares	**Nominal value**
		HK$'000
Ordinary shares		
Authorised:		
Ordinary shares of HK$0.10 each at 1 January 2005	6,840,000,000	684,000
Increase in authorised share capital	73,160,000,000	7,316,000
Ordinary shares of HK$0.10 each at 30 September 2005	80,000,000,000	8,000,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each at 1 January 2005	3,678,698,284	367,870
Exercise of share options	800,000	80
Capital reduction and share consolidation	(3,311,548,456)	(331,155)
Issue of Consideration Shares *(note 1)*	5,050,000,000	505,000
Issue of shares *(note i)*	390,000,000	39,000
Ordinary shares of HK$0.10 each at 30 September 2005	5,807,949,828	580,795
Preference shares		
Authorised:		
Preference shares of HK$1,000,000 each at 1 January 2005 and 30 September 2005	316	316,000
Issued and fully paid:		
Preference shares of HK$1,000,000 each at 1 January 2005	103	103,000
Redemption of preference shares (note ii)	(103)	(103,000)
Preference shares of HK$1,000,000 each at 30 September 2005	—	—

12 Issued equity (continued)

Notes:

(i) On 27 July 2005, 390,000,000 new ordinary shares of the Company of par value HK$0.1 each were issued at HK$1.3 each to new shareholders, deriving proceeds totalling HK$482,325,000.

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

13 Long-term loans

	Unaudited 30 September 2005	Audited 31 December 2004
	HK$'000	*HK$'000*
Bank loans		
Secured *(note (a))*	**105,023**	30,084
Guaranteed *(note (b))*	**13,014**	20,278
Unsecured	**137,244**	4,775
	255,281	55,137
Other loan		
Unsecured *(note (c))*	**—**	81,205
	255,281	136,342
Less: Amount due within one year — bank loans	**(14,833)**	(5,641)
	240,448	130,701

13 Long-term loans (continued)

The analysis of the above is as follows:

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Bank loans		
Wholly repayable within five years	**180,948**	25,053
Not wholly repayable within five years	**74,333**	30,084
	255,281	55,137
Other loan		
Not wholly repayable within five years	**—**	81,205
	255,281	136,342

As at the balance sheet date, the Group's long-term bank loans were repayable as follows:

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Within one year	**14,833**	5,641
In the second year	**16,626**	7,521
In the third to fifth year	**182,891**	32,574
After the fifth year	**40,931**	9,401
	255,281	55,137

Notes:

(a) As at 30 September 2005, certain land use rights, investment properties and properties held for sale were pledged as securities for the long-term bank loans.

(b) As at 30 September 2005, the long-term bank loans were guaranteed by a related company of a joint venture partner.

(c) Other long-term loan 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.

14 Trade and bills payables

	Unaudited 30 September 2005 HK$'000	Audited 31 December 2004 HK$'000
Jointly controlled entities	**2,141**	19
Related parties (note 20(b))	**10,896**	365,810
Third parties	**2,310,988**	1,065,499
	2,324,025	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:

	Unaudited 30 September 2005 HK$'000	Audited 31 December 2004 HK$'000
1 to 3 months	**2,234,299**	1,230,960
4 to 6 months	**65,263**	81,153
7 months to one year	**19,077**	96,238
One to two years	**5,210**	22,953
Over two years	**176**	24
	2,324,025	1,431,328

15 Other payables and accruals

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Advance receipts from customers		
Related parties	**13,479**	36,603
Third parties	**361,569**	1,325,149
Other payables and accruals		
Related parties	**7,487**	35,704
Third parties	**157,638**	59,226
	540,173	1,456,682

16 Short-term loans

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Bank loans		
Secured *(note (a))*	**96,279**	150,418
Guaranteed *(note (b))*	**—**	1,308,705
Unsecured	**1,368,087**	18,802
	1,464,366	1,477,925
Loans from CETTI		
Unsecured *(note (c))*	**—**	155,439
	1,464,366	1,633,364

16 Short-term loans (continued)

Notes:

(a) As at 30 September 2005, certain property, plant and equipment and land use rights were pledged as securities for the short-term bank loans.

(b) The short-term bank loans as at 31 December 2004 were guaranteed by Sinochem Corporation.

(c) The loans from China Foreign Economy And Trade Trust & Investment Company Limited ("CETTI") as at 31 December 2004 were unsecured, interest bearing at 4.8% per annum and had been fully repaid in May 2005.

17 Business combinations

As mentioned in note 1 above, in 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 1, the Fertilizer Group is deemed to be the effective acquirer of the Property Group and reverse acquisition accounting is adopted to account for the Transaction, and accordingly these condensed 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 date of completion 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 (a))*	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 (b))*	(63,480)
Goodwill	356,503

17 Business combinations (continued)

Notes:

(a) 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.

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

	Fair value	**Acquiree's carrying amount**
	HK$'000	HK$'000
Property, plant and equipment *(note 9)*	140	140
Investment properties *(note 9)*	70,000	70,000
Properties held for sale	84,000	84,000
Trade receivables	1,066	1,066
Other receivables and prepayments	15,410	15,410
Bank balances and cash	1,807	1,807
Other payables and accruals	(20,345)	(20,345)
Amount due to a director	(3,271)	(3,271)
Amount due to a shareholder	(116,941)	(116,941)
Bank loans	(84,218)	(84,218)
Deferred tax liabilities	(11,128)	(354)
Net liabilities assumed	(63,480)	(52,706)

The Property Group contributed turnover of HK$1,877,000 and net profit of HK$98,000 to the Group for the period from 28 July 2005 to 30 September 2005. If the Transaction had occurred on 1 April 2005, the turnover and net profit contributed from the Property Group would have been HK$5,332,000 and HK$1,800,000 respectively.

As extracted from the unaudited consolidated financial statements of the Company for the six months ended 30 September 2004, the turnover and net profit of the Company and its subsidiaries, which comprise the companies of the Property Group, for the six months ended 30 September 2004 were HK$4,906,000 and HK$37,598,000 respectively.

18 Contingent liabilities

The Group had contingent liabilities in respect of letter of credit facilities in issue amounting to HK$531,771,000 (31 December 2004: HK$397,416,000). The letter of credit facilities are used for the issue of letters of credit for purchases of fertilizer products. The relevant banking facilities as at 31 December 2004 were guaranteed by Sinochem Corporation and had been fully released subsequently.

19 Commitments

(a) *Capital commitments*

	Unaudited 30 September 2005	Audited 31 December 2004
	HK$'000	*HK$'000*
Assets under construction		
Contracted but not provided for	**65,983**	229,498
Authorised but not contracted for	**18,386**	17,358
	84,369	246,856
Investment in a jointly controlled entity, Yunnan Three-Circles Sinochem Fertilizer Company Limited	**134,267**	131,616
	218,636	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:

	Unaudited 30 September 2005	Audited 31 December 2004
	HK$'000	*HK$'000*
Not later than one year	**7,966**	—
Later than one year but not later than five years	**2,510**	—
	10,476	—

19 Commitments (continued)

(c) Operating lease commitments

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

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Not later than one year	**7,986**	13,867
Later than one year but not later than five years	**15,295**	15,754
Later than five years	**14,664**	—
	37,945	29,621

20 Significant related party transactions

(a) The Group is controlled by Sinochem Corporation, a state-owned enterprise established in the PRC.

Sinochem Corporation itself is a state-owned enterprise 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.

20 Significant related party transactions (continued)

The related parties that had transactions with the Group during the nine months ended 30 September 2005 were as follows:

Companies beneficially owned by Sinochem Corporation

U.S. Chem Resources Inc.
（美國化工資源公司）
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）
Sinochem International Property Hotels Management Company Limited ("Sinochem International Property Hotels Management")
（中化國際物業酒店管理有限公司）
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）

Joint venture partner of Sinochem Zhisheng

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

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）

20 Significant related party transactions (continued)

(b) As at 30 September 2005, the Group had the following balances with Sinochem Corporation and the related parties set out in note (a) above:

	Unaudited 30 September 2005 *HK$'000*	Audited 31 December 2004 *HK$'000*
Trade receivables		
Sinochem Corporation (note below)	**358,013**	—
Sinochem (United Kingdom) Limited	**19,402**	—
Advance payments to suppliers		
Sinochem Cargill	**37,640**	25,588
Sinochem Kailin	**22,109**	3,443
Qinghai Salt Lake	**27,058**	188,094
Trade payables		
Yongan Zhisheng	**7,165**	5,447
Sinochem (United Kingdom) Limited	**—**	281,411
U.S. Chem Resources Inc.	**—**	71,075
Sinochem Shangdong	**3,731**	651
Advance receipts from customers		
Sinochem Shandong	**6,713**	12,842
Sinochem Guangdong	**—**	23,761
Sinochem Corporation	**6,766**	—
Other payables and accruals		
Sinochem (United Kingdom) Limited	**7,487**	8,691
Sinochem Corporation	**—**	27,013
Loans receivable		
Sinochem Corporation	**—**	205,462
Short-term loans		
CETTI	**—**	155,439

20 Significant related party transactions (continued)

Note:

This represents net trade receivable from Sinochem Corporation under an Import Service Framework Agreement ("Import Agreement") entered into between the Group and Sinochem Corporation on 6 June 2005, other than the transactions as disclosed in note 20(d)(iii) below. The balance represents receivables relating to the sales from the Group to Sinochem Corporation for resale to third party customers, net of payables relating to the Group's purchases of fertilizers from Sinochem Corporation which directly sources the products from third party suppliers.

(c) As at 30 September 2005, the Group had the following balances with other state-owned enterprises as follows:

	Unaudited 30 September 2005	Audited 31 December 2004
	HK$'000	*HK$'000*
Trade and bills receivables	**110,707**	72,848
Other receivables and prepayments	**160,285**	266,930
Bank balances and cash	**97,158**	103,737
Trade and bills payables	**139,504**	32,191
Other payables and accruals	**20,449**	194,715
Short-term loans	**516,151**	1,451,331
Current portion of long-term loans	**5,754**	—
Long-term loans	**43,704**	52,242

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

20 Significant related party transactions (continued)

(d) During the nine months ended 30 September 2005, the Group had the following transactions with Sinochem Corporation and the related parties set out in note (a) above:

	Unaudited Nine months ended 30 September	
	2005	**2004**
	HK$'000	*HK$'000*
Sales of fertilizers to:		
Sinochem Corporation	**730,473**	—
Sinochem Guangdong	**31,153**	351,159
U.S. Chem Resources Inc. *(note i)*	**—**	7,579
Sinochem Orient	**14,748**	4,019
Sinochem Shangdong	**46,568**	—
Purchases of fertilizers from:		
Sinochem Corporation	**400,684**	—
Sinochem Guangdong	**224,951**	—
Sinochem Shandong	**204,137**	—
Sinochem (United Kingdom) Limited *(note i)*	**406,092**	1,448,534
U.S. Chem Resources Inc. *(note i)*	**27,001**	411,939
Sinochem Orient	**54,125**	1,268
Sinochem Kailin *(note ii)*	**118,349**	76,490
Sinochem Cargill	**363,680**	220,409
Qinghai Salt Lake	**526,572**	148,920
Import service fee to:		
Sinochem Corporation *(note iii)*	**260**	—
Sinochem (United Kingdom) Limited *(note i)*	**7,397**	—
Lease of office premises from Sinochem International Property Hotels Management	**2,729**	2,350
Interest income on loans receivable from Sinochem Corporation	**2,140**	9,650
Sales service fee from Yongan Zhisheng	**—**	127
Purchase of raw materials from Yongan Zhisheng	**41,340**	21,644
Supply of utilities from Yongan Zhisheng	**2,252**	1,497

20 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 subsidiary of the Group, 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 purchase 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 Agreement with Sinochem Corporation, 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 overseas subsidiaries and the purchases of Sinochem Fertilizer are eliminated at consolidation in the Group's consolidated financial statements. During the nine months ended 30 September 2005, the sales and the corresponding purchases that transacted through Sinochem Corporation and eliminated at consolidation amounted to approximately HK$4,253,104,000. In this regard, the import service fee paid by the Group to Sinochem Corporation amounted to approximately HK$260,000.

(e) During the nine months ended 30 September 2005, the Group had the following transactions with other state-owned enterprises as follows:

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Sales of fertilizers	**1,382,996**	595,181
Purchases of fertilizers	**1,296,985**	432,644
Interest income from bank deposits	**1,067**	721
Bank charges	**2,881**	1,320
Interest expenses on bank loans	**58,685**	27,792

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

20 Significant related party transactions (continued)

(f) Key management compensation

	Unaudited Nine months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Salaries and other short-term employee benefits	**1,563**	1,169
Post employment benefits	**83**	61
	1,646	1,230

(g) Other balances with Sinochem Corporation as at 31 December 2004 and transactions with Sinochem Corporation for the nine months ended 30 September 2004 are set out below:

(i) Sinochem Corporation provides guarantee in respect of the banking facilities made available to the Fertilizer Group. As at 31 December 2004, the banking facilities utilised by the Fertilizer 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 13(c) 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 Fertilizer Group.

(iii) On 30 June 2004, the Fertilizer 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 Fertilizer Group to transfer a 60% equity interest in Sinochem Chongqing Fuling Chemical Fertilizer Company Limited and a 41% equity interest in Sinochem Kailin to the Fertilizer Group at nil consideration.

20 Significant related party transactions (continued)

(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$291,445,000 and HK$302,468,000 for the nine months ended 30 September 2004. Upon completion of the Transaction, such fertilizers have been directly purchased by Sinochem Corporation and sold to the Fertilizer Group before selling to the end customers.

(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.

OTHER INFORMATION

INTERIM DIVIDEND

The Board of Directors resolved not to declare any interim dividend for the nine months ended 30 September 2005.

DIVIDEND POLICY

The Board of Directors decided that for a period of 3 to 5 years commencing from 2005, 15% to 25% of the distributable profit of the Company for the year will be allocated for declaration of dividend. The Company did not declare dividend for the reporting period but will follow such dividend policy for the year.

EMPLOYEES AND COMPENSATION POLICY

As at 30 September 2005, the Group employed approximately 2657 full-time employees. Employees are remunerated according to market rates. The Company has adopted a share option scheme.

In order to further improve the management skills and professional standard of the management of the Group and to enhance the overall quality of the employees so as to provide sufficient human resources to cater the Group's rapid developments, and to improve its competitiveness. During the period under review, the Group provided 1151 hours of training courses for 1989 person-times. The training covered areas such as reform management, risk management, basic management, communication, human resource, information technology, financial management, brand building, production safety, leading to further improvement in the overall quality and the professional standard of the Group's management personnel and employees.

Set out below is the Group's compensation policy:

1. No individual employee shall have the right to determine his/her own compensation;

2. The level of cash compensation varies with importance of duties so as to ensure that the Company can recruit, retain and motivate high-calibre candidates required for the development of the Company and avoid excess reward.

3. Compensation comprises basic salary, annual bonus, benefits and long-term incentive award. The objective of the Company is to associate the interests of key employees with the performance of the Company and the interests of shareholders, as well as achieving balance of short-term and long-term benefits through a reasonable system. Meanwhile, the Company also aims at maintaining the competitiveness of the overall compensation.

EMPLOYEES AND COMPENSATION POLICY (continued)

4. The level of compensation varies with the importance of duties. The bonus in connection with performance is directly proportional to the importance of duties.

5. The Company reviews its compensation policy annually and engages professional intermediary if necessary so as to ensure the competitiveness of the compensation policy which, in turn, would support the business growth of the Company.

DISCLOSURE OF INTERESTS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2005, none of the directors or chief executive of the Company or any of their associates had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which (i) had to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive were taken or deemed to have under such provisions of the SFO) or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register of the Company referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 September 2005, the following persons (other than directors and chief executive of the Company) had interests or a short position in the shares and underlying shares of the Company which were recorded in the register of interests required to be maintained by the Company pursuant to Section 336 of the SFO:

	Long Position		**Short Position**	
Name of Shareholder	**Number of shares involved**	**Approximately percentage of shareholding**	**Number of shares involved**	**Approximately percentage of shareholding**
Sinochem Hong Kong (Group) Company Limited	4,470,453,301 *(Note 1)*	76.97%	581,375,779 *(Note 2)*	10.01%
Sinochem Corporation *(Note 3)*	4,470,453,301	76.97%	581,375,779	10.01%
Potash Corporation of Saskatchewan Inc.	5,051,829,080 *(Note 4)*	86.98%	—	—

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES (continued)

Notes:

(1) The number of ordinary shares consists of (a) 3,890,239,114 ordinary shares owned by Sinochem Hong Kong (Group) Company Limited and (b) 580,214,187 ordinary shares owned by Potash Corporation of Saskatchewan Inc. in which Sinochem Hong Kong (Group) Company Limited is deemed to have an interest under the provisions of the SFO.

(2) The 581,375,779 ordinary shares are subject to an option granted by Sinochem Hong Kong (Group) Company Limited to Potash Corporation of Saskatchewan Inc. pursuant to which Potash Corporation of Saskatchewan Inc. may exercise the option to purchase up to such number of ordinary shares from Sinochem Hong Kong (Group) Company Limited.

(3) Sinochem Corporation is taken to be interested and has a short position in the ordinary shares of the Company in which Sinochem Hong Kong (Group) Company Limited, its wholly-owned subsidiary, holds an interest and a short position respectively.

(4) The number specified consists of (a) 580,214,187 ordinary shares owned by Potash Corporation of Saskatchewan Inc., (b) 581,375,779 ordinary shares in which Potash Corporation of Saskatchewan Inc. is taken to be interested in pursuant to the option referred to in Note (2) above; and (c) 3,890,239,114 ordinary shares owned by Sinochem Hong Kong (Group) Company Limited in which Potash Corporation of Saskatchewan Inc. is deemed to have an interest under sections 317 and 318 of the SFO.

Apart from the aforesaid, as at 30 September 2005, the Company had not been notified of any interests and short positions in the shares or underlying shares of the Company which were required to be recorded in the register kept under Section 336 of the SFO.

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. Under the Old Share Option Scheme, certain options previously granted to eligible participants had lapsed during the period under review. Movement of the options during the period is as follows:

Name of grantee	Date of grant	Exercisable period	Exercise price (Note 2)	Number of options (Note 2) At 01.01.2005	Lapsed during the period	At 30.09.2005
			HK$			
Mr. Chu Yu Lin, David *(Note 1)*	01.08.2001	01.02.2002 to 31.01.2005	0.255	5,800,000	5,800,000	0
Mrs. Chu Ho Miu Hing *(Note 1)*	01.08.2001	01.02.2002 to 31.01.2005	0.255	5,800,000	5,800,000	0
Employee	08.12.2001	08.06.2002 to 07.06.2005	0.378	2,000,000	2,000,000	0

Note 1: Former directors of the Company.

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

On 26 August 2002, a new share option scheme ("New Share Option Scheme") was adopted by the Company in place of the Old Share Option Scheme. No share options have been granted under the New Share Option Scheme since its adoption.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company ("Audit Committee") comprises three independent non-executive directors, namely, Dr. Li Ka Cheung, Eric, Dr. Tang Tin Sek and Mr. Ko Ming Tung, Edward, with Dr. Li Ka Cheung, Eric being the chairman. The Audit Committee, together with the management, has reviewed the interim report of the Group for the nine months ended 30 September 2005 and the accounting principles and practices adopted by the Group.

COMPLIANCE WITH CODE

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

Save as disclosed above and the requirements on preparing the Corporate Governance Report, which is effective for the preparation of the annual report for the financial year ended 31 December 2005, the Company has fully observed the provisions in the Code on Corporate Governance Practices.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the nine months ended 30 September 2005.

By Order of the Board
Du Ke Ping
Chief Executive Officer

Hong Kong, 19 December 2005