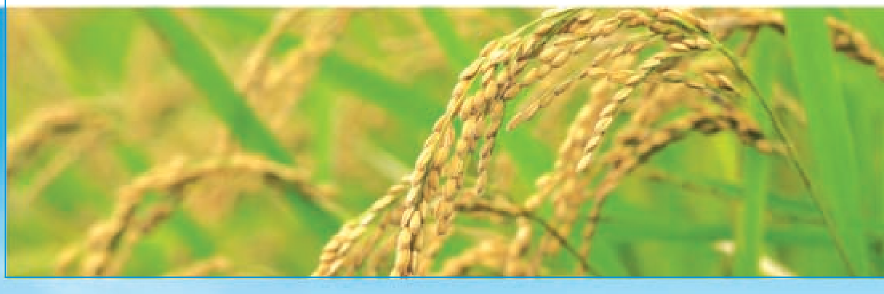
Annual Report 2005



中化香港控股有限公司

SINOCHEM HONG KONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 297

Contents

Company Profile and Corporate Information

Corporate Profile

Sinochem Hong Kong Holdings Limited (the "Company") successfully completed the acquisition of China Fertilizer (Holdings) Company Limited and its subsidiaries (collectively the "Fertilizer Group") on 27 July 2005. Subsequent to the completion of the acquisition, the Company and its subsidiaries (the "Group") has become the first company in the China fertilizer industry ever listed in Hong Kong, and is a comprehensive fertilizer enterprise centering on distribution services and vertically integrating the upstream, midstream and downstream of the industry chain.

Major businesses of the Group include the production, import, export, distribution, wholesale and retail of fertilizer raw materials and products, as well as research and development and services in the field of fertilizer-related business and products.

According to the turnover of 2005, the Group is also:

- the largest fertilizer distributor in China,
- the major supplier of imported fertilizers in China, and
- a major fertilizer producer in China.

The Group's competitive strengths are mainly reflected in:

- its business model focusing on distribution services and integrating production, supply and sales for synergic development,
- its abilities to offer the most complete varieties of fertilizer products and services to the customers,
- its strategic alliances with international suppliers for the exclusive distribution and sales of their products in China,
- its largest self-owned and self-run fertilizer distribution and sales network in China, and
- the only enterprise that enjoys the "National Well-known Trademark" in the fields of both "goods" and "services" recognized by the competent authorities of the Chinese government.

Mission of the Group: "Basing ourselves in China to deploy fertilizer resources from among the global markets to serve the needs of the country's food security and agricultural production". The Group constantly aspires to achieve sustained, stable and rapid growth, to deliver value and returns to the shareholders, and to be committed to social responsibilities.

The ultimate controlling shareholder of the Company is Sinochem Corporation, which currently holds 53.53% of the issued ordinary shares of the Company through its wholly-owned subsidiary, Sinochem Hong Kong (Group) Company Limited ("Sinochem HK"). Sinochem Corporation is one of China's earliest qualifiers of *Fortune* Global 500 and has been selected for the 15th times, ranking the 287th in 2005. The second largest shareholder of the Company is Potash Corporation of Saskatchewan Inc. ("PotashCorp"), which is the largest potash producer in the world, and currently holds 20% of the issued ordinary shares of the Company. The remaining 26.47% of the issued ordinary shares of the Company are held by the public.

Company Profile and Corporate Information

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)*
Mr. Harry YANG

Non-Executive Directors

Dr. CHEN Guo Gang
Dr. Stephen Francis DOWDLE
Mr. Wade FETZER III

Independent Non-Executive Directors

Mr. KO Ming Tung, Edward
Dr. LI Ka Cheung, Eric
Dr. TANG Tin Sek

Audit Committee

Dr. LI Ka Cheung, Eric *(Chairman)*
Mr. KO Ming Tung, Edward
Dr. TANG Tin Sek

Remuneration Committee

Dr. TANG Tin Sek *(Chairman)*
Mr. KO Ming Tung, Edward
Dr. LI Ka Cheung, Eric
Dr. Stephen Francis DOWDLE
Ms. CHEN Yi Qing

Nomination Committee

Mr. KO Ming Tung, Edward *(Chairman)*
Dr. LI Ka Cheung, Eric
Dr. TANG Tin Sek
Dr. Stephen Francis DOWDLE

Chief Financial Officer

Mr. ZHANG Bao Hong

Qualified Accountant

Ms. TSE Yin Hung, Bonnie

Company Secretary

Mr. Navin AGGARWAL, Solicitor

Legal Advisers

Allen & Overy
9th Floor, Three Exchange Square
Central, Hong Kong

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

Auditors

PricewaterhouseCoopers
Certified Public Accountants
22nd Floor, Prince's Building
Central, Hong Kong

Investor Relations

Telephone:
Beijing: (86) (10) 8807 9192
Hong Kong: (852) 3656 1588

Fax:
Beijing: (86) (10) 8807 9627
Hong Kong: (852) 2850 7229

Address:
5th Floor, Sinochem Tower, A2 Fuxingmen
Waidajie, Beijing 100045 China

Units 4601-4610, 46th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Company Website:
www.sinofert.com.hk

Stock Code

297

Principal Office

Units 4601-4610, 46th Floor
Office Tower, Convention Plaza
1 Harbour Road
Wanchai, Hong Kong

Registered Office

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Share Registrar and Transfer Office

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Principal Bankers

ING Bank
Bank of Tokyo-Mitsubishi
ABN AMRO Bank
Bank of China
Bank of Communications

STRATEGY

Chairman's Statement

Dear shareholders,

I am pleased to present to you the annual report for the year ended 31 December 2005 of the Company for your review. This is the first annual report of the Company subsequent to its successful acquisition of the Fertilizer Group in July 2005.

Our mission is "Basing ourselves in China to deploy fertilizer resources from the global markets to serve the needs of China's food security and agricultural production". China is the world's largest and fastest growing fertilizer consumption market. In 2005, the Group continued to implement the strategy of "focusing on distribution services and integrating production, supply and sales for synergic development" and achieve sustainable, stable and rapid growth. The Group strived to improve management and operations and vigorously engage in market expansion. As a result, the market competitiveness and operating results of the Group's principal businesses have kept edging forward. In 2005 the Company achieved sales volume of 11.17 million tonnes, turnover of HK$19,200 million and net profit of HK$779 million. Earnings per share was 14.49 HK cents. This is the fourth consecutive year that the Group's fertilizer business attained rapid growth since 2002.

Upon completion of the acquisition, the Company formed a highly independent, diversified and yet specialized board of directors that can represent the interests of the shareholders and in particular the interests of the minority shareholders, further improving the structure of corporate governance. Internal control policies and business procedures were streamlined and amended in compliance with international practices, bringing into place a more complete internal control system. Meanwhile, a professional team specialising in investor relations was set up to improve communications with investors.

We firmly believe that it is the responsibility of the Group to constantly create value and deliver returns to the shareholders. On the basis of the outstanding performance achieved in 2005 and the Group's financial position, cash flow position and long-term sustainable growth, the Board of Directors proposed a final dividend of 2.01 HK cents per share for the year ended 31 December 2005.

Since the completion of the acquisition, the Company has won the interest and tremendous support from both existing and new shareholders and built a solid foundation for achieving stable, sustainable and fast growth. PotashCorp, the strategic investor of the Company and the world's largest potash producer, exercised 10.01% of its share options on 27 January 2006, the first day of the exercise period, increased its shareholding in the Company to 20%, becoming the second largest shareholder of the Company and demonstrated its firm confidence in the Company's future prospects. We strongly believe that the Group will continue to scale new heights with the unswerving support of all the shareholders and investors.

Chairman's Statement

Currently the Chinese agriculture industry has entered into a new phase of development. The State is setting up a long-term scheme that will promote agriculture subsidies from industrial sector, urban areas supporting the rural areas and improvements in farmers' income. Meanwhile, the fertilizer industry will continue to enjoy preferential policies, and large-scale enterprises are supported by the State to play a dominant role in industry restructuring. Capitalising on such opportunities, the Group will adhere to the strategy of focusing on distribution services and integrating production, supply and sales to realise synergy effect. Top priorities will be given to the development of international strategic alliances, resources acquisitions, domestic fertilizer business and the construction of distribution network. The market share and profitability of the Group will be continuously boosted so as to deliver higher and sustainable returns to the shareholders.

On behalf of the Board of Directors, I would also like to take this opportunity to extend our heartfelt appreciations to the supportive shareholders and customers. I would also extend our gratitude to the management and employees of the Group for their support and highly effective performance.

Liu De Shu
Chairman

Hong Kong, 10 April 2006

Management Report

Dear shareholders,

Since the successful acquisition of the Fertilizer Group in July 2005, fertilizer business has become the principal business of the Group. With the trust and support of the Board of Directors, the new management team strictly observes their duty and keeps forging ahead in actively carrying out the strategy set by the Board – focusing on distribution and integrating production, supply and sales for synergic development – leading the Group to vigorously expand business operations and continuously improve the internal control system. As a result, the Group achieved remarkable performance, which further consolidated and enhanced the cutting edge of the Group in the China fertilizer market.

I. Results Maintained Sustainable, Stable and Fast Growth in 2005

For the year ended 31 December 2005, the Group's fertilizer business achieved turnover of HK$19,200 million, up 62.6% over the last year; and net profit reached HK$779 million, up 52.6% over the last year. The fertilizer business realised annual turnover of HK$7,300 million, HK$9,800 million and HK$11,800 million in 2002, 2003 and 2004 respectively, with an average annual growth rate of 27%. Net profits were HK$226 million, HK$391 million and HK$511 million, respectively, with an average annual growth rate of 50%. Such stable and fast growth of the fertilizer business during these successive years was the result of the effective development strategy and the continuously improved management quality, as well as the efforts of all the employees.

Reviewing our profit structure, sourcing and distribution business contributed HK$709 million to net profit after tax, which was an increase of 56.2% over the last year and accounted for 91% of the total net profit after tax of the Group. Production business contributed HK$70 million to net profit after tax, an increase of 22.81% over the last year and accounted for 9% of the Group's total net profit after tax. The rapid growing profits from production and sourcing and distribution businesses reinforced the competitive advantages of the Group's integrated strategy of the synergic development of the upstream, midstream and downstream operations. As a result, the profit base of the Group was further consolidated.

Management Report

II. Major Businesses Developed Rapidly and Internal Management Continuously Improved

The Group's strategy is predicated on the development of its domestic distribution network to increase its sales capabilities and market share, enhance the core competitiveness of the Group and production capacity and its bargaining power in procurement. In addition, the Group will fully capitalize on its advantages along the value chain from production to diversified procurement channels to achieve coordinated development of all upstream, midstream and downstream businesses.

(1) Distribution and Sales

The Group is the largest fertilizer distributor in China. For the year ended 31 December 2005, total sales volume reached 11.17 million tonnes, increased 34% over the last year and among which, sales volume of domestic fertilizers increased by 147% to 3.85 million tonnes, representing 34% of total sales, while that of imported fertilizers was 6.36 million tonnes, representing 57% of total sales and an increase of 7% over the last year. While maintaining a stable growth in imported fertilizer operations, the Group made great progress in enhancing the operating scale and capabilities of its domestic fertilizer business.

The Group has the most extensive fertilizer marketing and distribution network, which covers 20 major agriculture provinces in China, accounting for approximately 71% of the total arable land of the country. As at 31 December 2005, the Group had set up 14 branches and 1,063 sales outlets throughout the country. For the year ended 31 December 2005, products sold via the distribution network amounted to 7.28 million tonnes, accounting for 65% of total sales volume. The business model oriented on the grass-roots customers continued to make headways, scoring a 20% increase in customer base which includes mainly customers at the county and township levels. Such a unique distribution network acts as an "expressway" reaching the markets in China's vast rural areas.

Apart from its own distribution network, the Group also expanded sales through wholesale in regions not covered by the network, direct sales to compound fertilizers processing producers using nitrogen, phosphate and potash as raw materials, as well as export. Through a diversified marketing strategy with distribution playing a leading role, the marketing capabilities and market shares of the Group were improved, resulting in a broad and solid customer base.

Management Report

(2) Production

The Group's investments focused on the fertilizer production projects which utilized non-renewable resources near the production base or were built close to the consumers. As at 31 December 2005, the Group had equity interest in seven fertilizer production companies with the aggregated fertilizer production capacity grew 17% to 2.73 million tonnes, in which 75% were phosphate fertilizers and 25% compound fertilizers produced from the non-renewable phosphoric rock. Sinochem Corporation, the ultimate holding company of the Company, has always extended its full support to the development of the Group, and granted the Group the options and preemptive right to purchase the three fertilizer production companies in which Sinochem Corporation has equity interest at fair market value and at appropriate time. The total production capacity of these three enterprises is 2.1 million tonnes, of which 1.5 million tonnes is potash fertilizer produced from the non-renewable potash. In addition, the Group has preference as to the sales of the products of these three enterprises, which has further enhanced the Group's position as a major fertilizer producer in China.

(3) Sourcing

In addition to expanding supply channels from its own production sector, the Group also attached great importance to forming pluralized sourcing channels in the global marketplace for the stable supply of quality fertilizers. In 2005, the Group continued to solidify its strategic cooperation with major international fertilizer suppliers, and signed exclusive product distribution contracts with nine major international suppliers, maintaining market share of over 50% for both imported potash and compound fertilizers. In respect of sales, the Group is the largest distributor of imported fertilizers in China, and has successfully established a strong market position in terms of negotiation power, market share and brand awareness. On the other hand, the Group's purchase volume of domestic fertilizers rose along with its well established relationships with large-scale fertilizer producers in China. Domestic purchase volume in 2005 reached 4.31 million tonnes, increasing the percentage to total purchase volume from 23% of the previous year to 40%. Such diversified sourcing channels enabled the Group to offer an extensive range of product mix including nitrogen-based, phosphate-based, potash and compound fertilizers to cater to different customer needs in different regions.

(4) Warehousing, Logistics and Agrichemical Services

In 2005, the Group continued to build a logistics operation system to complement its marketing and distribution strategy. Efforts were made to strengthen its cooperation with major destination ports of imported fertilizers such as Shanghai and Zhanjiang. Meanwhile the Group expanded its warehousing and distribution network in the inland fertilizer distribution centers and increased total warehousing capacity to 3 million tonnes.

Social responsibility and public image are always the prime concerns to the Group. In 2005, the Group persistently provided agrichemical services to farmers, including features at different media channels such as radio and newspapers, onsite exchanges with agrichemical experts and enquiry hotlines. These had enhanced farmers' knowledge of scientific fertilization and techniques, which in turn promoted the sales of the Group's products, and uplifted the brand image of "Sinochem Fertilizer" of the Group.

Management Report

(5) Internal Control and Management

The management of the Group has always attached top priority to the protection of shareholders' asset value, and therefore taking the building of an advanced and standardized internal control and management system as the foundation for the Group's long-term, healthy development. Leveraging on the opportunity for initiating systematic innovations following the acquisition, the Group carried out a thorough review and revision of the various internal control policies and procedures with reference to international practices. Standardized transaction and contract approval procedures were set up for the principal operations of the Group, including upstream investment, product procurement and downstream distribution. The management information system comprising the SAP system and distribution management system (DMS) were implemented and expanded to cross-check and monitor logistics, cash flow and information flow. The Group carried out credit investigation and credit rating procedures on suppliers and customers, and optimised the inventory tracking and management system 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 approval of various transactions. In addition, the Group has optimised its internal control measures through continued reviews and identification of problems by a dynamic internal auditing mechanism. As a result, the Group has enhanced its risk management and operating efficiency, laying down a robust institutional basis for the long-term, healthy and rapid growth of the Group.

(6) Human Resource Development

The Group places great importance on nurturing and developing human resources and source talents globally, providing competitive remuneration packages and a broad career platform. The remuneration policy of the Group has linked up the benefits of senior employees with corporate performance and shareholder value. The long-term and short-term benefits are combined under the Group's well established remuneration structure. This has resulted in the Group becoming a more attractive employer, able to retain and motivate various talents. In addition, the Company has adopted a share option scheme, linking the benefits of the management closely with the development of the Group, which is certainly conducive to promote the healthy and sustainable development of the Group.

III. Outlook of 2006

Year 2006 is the first year of the eleventh Five-Year Plan period in China. In the great course of building "new socialist countryside", the government and various social forces have showed unprecedented enthusiasm in investing in the agricultural sector, the rural areas and the farmers. Meanwhile, the state will continue to encourage the development of the fertilizer industry in policy decision-making. All this has jointly created a favorable external environment for the future development of the Group. Under the guidance of the Board of Directors and in the spirit of diligence and professionalism, the management of the Group will lead its staff to utilise the combined advantages and synergic effects of the development model focusing on distribution and integrating production, supply and sales. The Group's advantageous sourcing channel and market position in imported fertilizers will be further strengthened; and huge efforts will be made to expand the three-in-one marketing service system which combines downstream product sales, warehousing and logistics and agrichemical services as a whole, as well as to boost the core competencies centering on distribution so as to completely attain various operating goals and development objectives set forth for 2006, and present the shareholders with higher returns.

Chronicle of Events

In January 2005, as part of the efforts to implement the Fertilizer Group's existing Memorandum of Understanding for exclusive agency cooperation during 2004-2006 with major international fertilizer suppliers, the Fertilizer Group signed exclusive sales agreements with CANPOTEX of Canada, DSW of Israel, APC of Jordan, respectively, for the sales of their products in China for year 2005. In the same month, the Fertilizer Group also signed with Uralkali of Russia exclusive agency agreement for its seaborne potash fertilizers in the China market. All this enabled the Fertilizer Group to maintain its leading position in the China potash fertilizer market.

On 28 January 2005, the Company (as pruchaser) entered into an acquisition agreement with Sinochem HK (as Vendor) to acquire the Fertilizer Group of Sinochem HK. Mr. Liu De Shu, Chairman of the Board of the Company, was present at the agreement signing ceremony.

In January 2005, Yunnan Three-Circles Sinochem Fertilizer Company Limited, a joint venture of the Fertilizer Group, initiated the construction of its 1.2 million tonnes per year diammonia phosphated ("DAP") project, which is the largest DAP production project in China.

In January 2005, the Fertilizer Group set up two new branches of Sinochem Fertilizer in Guangdong and Fujian provinces, respectively, actively exploring the fertilizer market of the southeast coastal areas of China.

In February 2005, the "localization project of large-scale slurry-concentration process DAP installation" jointly developed by Sinochem Chongqing Fuling Chemical Fertilizer Company Limited ("Sinochem Fuling"), a subsidiary of the Fertilizer Group, and Sichuan University and China Phosphate Fertilizer Industry Association was awarded State Technological Advancement Award Grade II.

In March 2005, the Fertilizer Group launched a national action plan to "provide techniques, fertilizers and services" to the farmers as a major program in its agrichemical service efforts. By the end of 2005, the program was able to cover 20 agricultural provinces, and warmly received by the broad masses of farmers. As a result, the activities drew the attention and wide coverage by major news media including CCTV and the Central People's Radio Station.

On 12 April 2005, Mr. Liu De Shu, Chairman of the board of the Company and President of Sinochem Corporation, met in Beijing with a work visit delegation from the Canadian potash industry, including the CEOs of PotashCorp, Mosaic and Agrium, which are the three major shareholders of Canpotex. Mr. Du Ke Ping, then vice president of Sinochem Corporation, and now the CEO of the Company, also attended the meeting and accompanied the guests to a fertilizer market observation trip following the meeting.

In April 2005, Guiyang Sinochem Kailin Fertilizer Company Limited, a jointly controlled entity of the Fertilizer Group, initiated the construction of its 200,000 tonnes per year monoammonia phosphate ("MAP") project.

In May 2005, Sinochem Fuling, initiated the construction of its 300,000 tonnes per year MAP project.

Chronicle of Events

During 6 to 8 June 2005, Mr. Du Ke Ping, then vice president of Sinochem Corporation and now the CEO of the Company, led a Sinochem Fertilizer delegation to participate in the 73th IFA Annual Meeting in Kuala Lumpur, Malaysia. During the meeting, Mr. Du held discussions with major international fertilizer suppliers and customers for further cooperation.

On 13 June 2005, the Company issued shareholders' circular for the acquisition of the Fertilizer Group and announced the proposal of share placement. Such acquisition was duly passed at the special general meeting held on 5 July 2005.

On 27 July 2005, the Company successfully completed the acquisition of the Fertilizer Group business, which constituted a reverse takeover, and was re-listed on The Stock Exchange of Hong Kong with the introduction of strategic investor PotashCorp.

On 4 September 2005, Mr. Du Ke Ping, CEO of the Company (and then concurrently vice president of Sinochem Corporation) signed an exclusive agency agreement on behalf of the Sinochem Corporation with OCP of Morocco for the exclusive marketing and sales of OCP's phosphate fertilizers in the China market for the period from 2007 to 2011. Mr. Wu Bang Guo, Chairman of the NPC Standing Committee who was visiting Morocco at the time attended the contract signing ceremony. The signing of such agreement is important for strengthening the market status of the Fertilizer Group in respect of acquiring international high quality phosphate resources.

During 25 to 27 September 2005, Mr. Du Ke Ping, CEO of the Company, led a Sinochem Fertilizer delegation to participate in the TFI (The Fertilizer Institute) 2005 Annual Meeting in Toronto, Canada, at which Mr. Du held discussions with major international fertilizer suppliers on the issues regarding mutual cooperation in 2006 and future development.

In September 2005, "Tengsheng" brand MAP produced by Sinochem Fuling won the title of "China's Famous Brand Product".

In November 2005, the Group entered into an exclusive agency agreement with Nitrem-Complex on the exclusive marketing and sales of the latter's sulphate of potash-based compound fertilizers in the China market for the year 2006.

In November 2005, the Group participated in the open tender for commercial reserves of fertilizers during the 2005/2006 slack season organized by the Chinese government. Thanks to the Group's advantages in distribution network, high quality product sourcing and brand awareness, the Group successfully tendered for 1.3 million tonnes of subject fertilizers, which accounted for 16% of the total subject volume.

In December 2005, the "Sinochem" brand and "Teng Sheng" brand compound fertilizers, produced by Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited and Sinochem Fuling, subsidiaries of the Group respectively, won the title of "Products Exempt from Inspection by the State."

In December 2005, the Group's three-year strategic plan (2006 - 2008), modified on a rolling basis, was approved by the Board of Directors, further setting forth the strategy of "focusing on distribution and integrating production, supply and sales for synergic development", as well as the major strategic actions for the Group in the next three years.

Key Financial Data

	Year 2005	Year 2004
Sales volume (million tonnes)	11.17	8.36
Turnover (HK$'000)	19,248,665	11,837,185
Gross profit (HK$'000)	1,542,793	1,025,072
Profit before income tax (HK$'000)	929,957	668,065
Net profit (HK$'000)	779,421	510,824
Earnings per share (HK cents/share)	14.49	10.12
Return on Equity[1]	22.43%	26.87%
Return on Equity[2]	28.79%	26.87%
Debt to equity ratio[3]	34.40%	86.06%

Notes:

(1) Calculated based on profit attributable to shareholders of the Company divided by total equity as at the balance sheet date (excluding minority interests).

(2) Calculated based on profit attributable to shareholders of the Company divided by total equity at the end of the reporting periods (excluding minority interests and the effect of equity increase due to new share capital issued upon re-listing).

(3) Calculated based on the total interest-bearing debt divided by total equity as at the balance sheet date.

DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. LIU De Shu – Non-Executive Director and Chairman of the Board

Mr. LIU De Shu, aged 53, joined the Company as the Chairman of the Board of Directors in April 2004. Mr. Liu graduated from Tsinghua University in the PRC in April 1979 and from China Europe International Business School with an EMBA in 1998. In March 1998 Mr. Liu became the President and Chief Executive Officer of Sinochem Corporation. He was once the deputy general manager, the general manager and the chairman of China National Machinery & Equipment Import & Export Corporation. Mr. Liu holds other senior positions in several subsidiaries and joint venture companies of Sinochem Corporation, namely the vice chairman of Dalian West Pacific Petrochemical Co., Ltd., the chairman of Lion Fund Management Ltd. and the director of Manulife-Sinochem Life Insurance Co. Ltd. and China World Trade Center, respectively.

Mr. Liu has over 21 years of extensive corporate management experience in large enterprises and has profound and yet pragmatical experiences in corporate strategic development, operation and internal control. Thanks to the outstanding performance of Sinochem Corporation under his leadership, in 2004 Mr. Liu was named by China Management Central Media Association and Phoenix TV as one of the “Top 10 Most Valuable Managers” in China. Mr. Liu is a member of the 10th National Committee of the Chinese People’s Political Consultative Conference and a director of IAM.

Mr. SONG Yu Qing – Deputy Chairman and Non-Executive Director

Mr. SONG Yu Qing, aged 57, joined the Company in August 2001 and is the Deputy Chairman of the Board of Directors and a Non-executive Director. Before he joined Sinochem Corporation in 1987, Mr. Song was an official in MOFTEC (Ministry of Foreign Trade and Economic Cooperation). In Sinochem Corporation, he was in charge of the human resources and was promoted as the Vice President of Sinochem Corporation in May 1993. In November 1995, Mr. Song was transferred to work as the Deputy General Manager of Shanghai Foreign Trade Center which was responsible for the construction of Jinmao Tower in Shanghai. From January 1999 till now, Mr. Song has been a director and the Managing Director of Sinochem Hong Kong (Group) Company Limited.

Mr. DU Ke Ping – Executive Director and Chief Executive Officer

Mr. DU Ke Ping, aged 44, is an Executive Director and Chief Executive Officer of the Company. He graduated from the accounting department of Shandong Economic Institute with a Bachelor’s degree in 1983, and obtained an MBA degree from the University of International Business and Economics in 1997. Before joining the Sinochem Corporation, Mr. Du was an official of the Ministry of Foreign Trade and Economic Cooperation (the predecessor of the Ministry of Commerce), and once served at KPMG. During his 17-year service term at Sinochem Corporation, he held a number of senior positions as financial manager of America West Pacific Refinery Co., deputy general manager of Sinochem Rubber Co., deputy general manager of Sinofert, general manager of Sinochem Yu Hua Loong Trading SDN. BHD., general manager of Sinochem International Rubber Co. and assistant president of Sinochem Corporation. He was appointed as the general manager of Sinofert in 1999 and was later promoted to Vice President of Sinochem Corporation in charge of the overall management of the fertilizer business. Since 14 February 2006, Mr. Du no longer held the position of Vice President of Sinochem Corporation so as to devote the whole of his time to lead the management and operations of the Group. Mr. Du has a profound understanding of corporate management and business operations with a keen insight on financial management and international strategic alliances.

SINOCHEM HONG KONG HOLDINGS LIMITED

DIRECTORS AND SENIOR MANAGEMENT

Mr. Harry YANG – Executive Director and Deputy General Manager

Mr. Harry YANG, aged 43, is currently an Executive Director and Deputy General Manager of the Company. Mr. Yang graduated from Shandong Normal University in 1983 with a Bachelor's degree and from the University of International Business and Economics in 1989 with a Master's degree in Economics. Mr. Yang joined Sinochem Corporation in 1989 and served successively as the general manager of Sinochem (USA) Inc. and Sinochem International London Oil Co. Ltd. and other positions. In 2002 Mr. Yang was appointed as the deputy general manager of fertilizer group and director and general manager of the US Agrichemicals Corp, and was promoted to the present position in March 2006. Mr. Yang possesses years of experiences in international trade and fertilizer business with a deep understanding of the international fertilizer market. Mr. Yang is responsible for the management of the Company's investor's relations and property operations. Mr. Yang had served at Sinochem Corporation for over 17 years.

Dr. CHEN Guo Gang – Non-executive Director

Dr. CHEN Guo Gang, aged 46, is currently a Non-executive Director of the Company. Dr. Chen graduated from the accounting department of Xiamen University with a Doctorate degree in 1988 and is a Senior Accountant in the PRC. Dr. Chen joined Sinochem Corporation in 1991 and served successively as the deputy general manager of Financial Department, vice president of China United Petrochemical Co., and general manager of Financial Department of Sinochem Corporation. Dr. Chen now serves as the Chief Financial Officer of Sinochem Corporation responsible for finance, risk management and insurance of Sinochem Corporation. Dr. Chen has a profound understanding on finance management, international financing, capital management and risk control. He is also a director of Sinochem International Corp., which is a company listed on the Shanghai Stock Exchange.

Dr. Stephen Francis DOWDLE – Non-executive Director

Dr. Stephen Francis DOWDLE, aged 55, is a Non-executive Director of the Company. He is currently the Senior Vice President of Fertilizer Sales for PCS Sales (USA) Inc., which is a wholly-owned subsidiary of the Company's investor PotashCorp, a position he has held since 2000. He is also a board member of Phosphate Chemicals Export Association, Inc., an export marketing association composed of several phosphate fertilizer companies through which member companies market and sell phosphate fertilizer, of which Potash Corporation of Saskatchewan Inc. is a member. Dr. Dowdle obtained a Bachelor of Arts degree from Brown University and a Ph.D. in Agronomy and Soil Science from the University of Hawaii. While completing his Ph.D., Dr. Dowdle lived in China and did advance field research at Central China Agricultural University, Wuhan, China. Dr. Dowdle has over 20 years experience in the fertilizer business, and has considerable experience in China and Asia, having lived and worked in the region for over 15 years.

Mr. Wade FETZER III – Non-executive Director

Mr. Wade Fetzer III, aged 68, is a Non-executive Director of the Company. He graduated from the University of Wisconsin with a bachelor's degree in economics in 1959 and from the Northwestern University with a Master of Business Administration degree in 1961. Mr. Fetzer is experienced in the areas of finance. After 10 years in the fields of investment banking and management consultancy, Mr. Fetzer became a general partner of Goldman Sachs & Co. in 1986 heading up its investment banking for the 16 states mid-west region of the United States of America. He became a limited partner of the same firm in 1994 and is

DIRECTORS AND SENIOR MANAGEMENT

now a retired partner. Mr. Fetzer is currently a director of the University of Wisconsin Foundation and the Kellogg Alumni Advisory Board and a trustee of the Rush Medical Center. He is also a director of PotashCorp, a corporation incorporated in Canada with shares listed on the Toronto Stock Exchange and the New York Stock Exchange and one of the world's largest integrated fertilizer and related industrial and feed products companies.

Mr. KO Ming Tung, Edward – Independent Non-executive Director and Chairman of the Nomination Committee

Mr. KO Ming Tung, **Edward,** aged 45, joined the Company in April 2000 as an Independent Non-executive Director and is presently the Chairman of the Nomination Committee. He obtained a Bachelor of Laws Degree in August 1986 and is a member of The Law Society of Hong Kong. Mr. Ko is the principal of Messrs. Edward Ko & Company and has been practising as a solicitor in Hong Kong for more than 15 years. He was appointed as Deputy Presiding Officer of the Labour Tribunal from July 2000 to January 2002 and is presently a Member of the Panel of Adjudicators of the Obscene Articles Tribunal, Solicitors Disciplinary Tribunal Panel and Employment Law Committee of The Law Society of Hong Kong. He is currently a Manager of Chiu Chow Association Secondary School. Mr. Ko is also an independent non-executive director of Guo Xin Group Limited and Thiz Technology Group Limited, and was an independent non-executive director of INNOMAXX Biotechnology Group Limited and New Smart Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange.

Dr. LI Ka Cheung, Eric – Independent Non-executive Director and Chairman of the Audit Committee

Dr. LI Ka Cheung, Eric, GBS, OBE, JP, FCPA, LLD, DSocSc., B.A., aged 52, joined the Company in September 2004 as an Independent Non-executive Director and Chairman of the Audit Committee. Dr. Li obtained a Bachelor of Arts (Economics) Honors degree from the University of Manchester in 1975 and is the Senior Partner of Li, Tang, Chen & Co., a firm of Certified Public Accountants (Practicing), and a director of the International Federation of Accountants (IFAC). He has over 30 years of experience in the accounting field and is currently an independent non-executive director of Transport International Holdings Limited (formerly known as The Kowloon Motor Bus Holdings Limited), SmarTone Telecommunications Holdings Limited, Wong's International (Holdings) Limited, CATIC International Holdings Limited, Hang Seng Bank Limited, China Resources Enterprise, Limited and RoadShow Holdings Limited, all of which are companies whose shares are listed on the Stock Exchange. He is a non-executive director of Sun Hung Kai Properties Limited. He is also an independent non-executive director of Strategic Global Investments Plc., a company listed on the Alternative Investment Market (AIM) of the London Stock Exchange. Dr. Li was a director of China Vanke Company Limited, a company whose shares are listed on The Shenzhen Stock Exchange. Dr. Li was also a director of SIIC Medical Science & Technology (Group) Limited, which was then a company listed on the Stock Exchange. Between the period from 1991 to 2004, Dr. Li was a member of the Legislative Council, and between 1995 to 2004, the Chairman of the Public Accounts Committee of the Legislative Council of Hong Kong. He was formerly the president of the Hong Kong Institute of Certified Public Accountants and is currently a board member of the International Federation of Accountants, a fellow member of The Institute of Chartered Accountants in England & Wales and the Hong Kong Institute of Certified Public Accountants.

DIRECTORS AND SENIOR MANAGEMENT

Dr. TANG Tin Sek – Independent Non-executive Director and Chairman of the Remuneration Committee

Dr. TANG Tin Sek, aged 47, joined the company in April 2000 as an Independent Non-executive Director. Dr Tang is a Certified Public Accountant and a partner of Terence Tang & Partners. He is also an independent non-executive director of CEC International Holdings Limited, New Smart Holdings Limited, INNOMAXX Biotechnology Group Limited and Frankie Dominion International Limited, all of which are companies whose shares are listed on the Stock Exchange. He obtained a Bachelor of Science degree from the University of Hong Kong in 1980, a Master of Business Administration degree from the University of Sydney, Australia in 1990 and a Doctor of Accountancy Degree from the Hong Kong Polytechnic University in 2004. He has over 25 years' experience in corporate finance, business advisory, financial management and auditing. He is also a member of the Chinese Institute of Certified Public Accountants, the Institute of Chartered Accountants in Australia and the Chartered Association of Certified Accountants in the United Kingdom.

Senior Management

Mr. ZHANG Bao Hong – Chief Financial Officer

Mr. ZHANG Bao Hong, aged 39, is the Chief Financial Officer of the Company. He graduated from the Guangdong University of Foreign Studies in 1988 majoring in corporate finance management, with a bachelor's degree in economics. Mr. Zhang obtained an EMBA degree from Guanghua School of Management of Peking University. Mr. Zhang joined Sinochem Corporation in 1988 and once served as the financial director of Sinochem Japan Co. Ltd. Mr. Zhang was appointed as general manager of the Financial Department of Sinofert in June 1999, and then promoted to deputy general manager of the fertilizer group in August 2000. Mr. Zhang was promoted to the present position in August 2005, and had acted as an important member in the work of the Fertilizer Group's capital reorganization and reverse takeover and re-listing. Mr. Zhang is responsible for the administration of financial management, legal and risk management, the information system, brand publicity, and media relations management of the Group. Mr. Zhang has over 17 years' experience with Sinochem Corporation.

Mr. LI Qiu Bing – Chief Operation Officer

Mr. LI Qiu Bing, aged 38, is the Chief Operation Officer of the Company. Mr. Li graduated from Beijing Industrial University in 1990 with a bachelor's degree in economics, majoring in foreign economics and trade, and in 2004 obtained an FMBA degree jointly granted by Tsinghua University and the Chinese University of Hong Kong. In 1990 Mr. Li joined China National Agricultural Means and Production Company (CNAMPGC) and served as general coordinator before he joined Sinofert in February 2003 as department general manager. Mr. Li was promoted to deputy general manager of Sinofert in November 2003. Mr. Li was appointed the present position in December 2005, and is now responsible for overseas purchase, strategic cooperation with international suppliers, logistics and agrichemical services of the Company. Mr. Li has over 16 years' experience in the agrichemical industry.

DIRECTORS AND SENIOR MANAGEMENT

Mr. KANG Jun Xiang – Deputy General Manager and Director of Sales and Distribution

Mr. KANG Jun Xiang, aged 42, is Deputy General Manager and Director of Sales and Distribution of the Company. Mr. Kang graduated from the department of economics of Guangzhou Jinan University in 1987 with a bachelor's degree in economics. Mr. Kang joined Sinochem Guangdong Export and Import Company in 1987 and served successively as department manager, assistant general manager, deputy general manager and general manager of the same firm. Mr. Kang joined Sinofert in January 2005 as deputy general manager, and was promoted to the present position in August 2005. Mr. Kang is now responsible for product distribution and the administration of the sales network of the Company. Mr. Kang has over 19 years' experience in chemicals and fertilizer import and export business in the PRC.

Mr. SHEN Qi – Deputy General Manager

Mr. SHEN Qi, aged 33, is Deputy General Manager of the Company. Mr. Shen graduated from Peking University in 1995 majoring in domestic economics management with a bachelor's degree in economics, and is now pursuing an EMBA degree in Cheung Kong Graduate School of Business. He first joined Sinochem Corporation in 1995, and then Sinofert in 1997 as department general manager. In November 2003, Mr. Shen was appointed general manager of Sinofert, and was promoted to the present position in August 2005, responsible for production resources development, management of shareholding and joint venture companies, and safety production. Mr. Shen has 11 years' experience with Sinochem Corporation.

Ms. CHEN Yi Qing – Director of Human Resources

Ms. CHEN Yi Qing, aged 34, is Director of Human Resources of the Company. Ms. Chen graduated from Beijing Economics Institute with a bachelor's degree in economics in 1993, majoring in trade and economics, and from the Capital University of Economics and Business with a Master's degree in human resources management in 2000. Ms. Chen worked for China Packaging Import and Export Corp since 1993, and joined Sinofert in March 2001. She was appointed as general manager of the Human Resources Department of Sinofert in November 2003, and promoted to the present position in August 2005, and is currently responsible for the overall management of human resources of the Company. Ms. Chen has over 13 years' experience in China import and export enterprises.

Ms. TSE Yin Hung, Bonnie – Financial Controller

Ms. TSE Yin Hung, Bonnie, aged 44, joined the Company in July 1997 and is the Financial Controller and qualified accountant of the Company, responsible for the Company's finance, accounting and corporate administration. Ms. Tse graduated from the University of Technology, Sydney in 1988 and is a holder of a Bachelor of Business Degree, majoring in Accounting. She is a member of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the Australian Society of Certified Practising Accountants and has over 17 years' working experience in accounting, finance and related field.

INNOVATION

Corporate Governance Report

Summary of Duties of the Board of Directors and Various Committees

Board of Directors

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

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

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

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

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

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

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

Corporate Governance Report

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

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

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

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

Corporate Governance Report

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

Audit Committee

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

The primary responsibilities of the Audit Committee are:

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

Corporate Governance Report

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

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

* Appointed on 31 August 2005

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

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

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

Corporate Governance Report

Remuneration Committee

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

The primary responsibilities of Remuneration Committee are:

(i) to make recommendations to the Board on the policy and structure of remuneration of directors and senior management and on establishment of a formal and transparent procedure for developing such remuneration policy;

(ii) to determine the remuneration packages of all Executive Directors and senior management including benefits in kind, pension rights and compensation payments (including those in relation to loss or termination of their office or appointment), and to make recommendation to the Board on the remuneration of Non-executive Directors;

(iii) to review and approve performance-based remuneration by reference to the corporate goals and objectives resolved by the Board from time to time;

(iv) to review and approve the compensation arrangements to Executive Directors and senior management in connection with any loss or termination of their office or appointment or dismissal or removal of directors for misconduct which shall be fair and not excessive;

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

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

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

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

Corporate Governance Report

Nomination Committee

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

The primary responsibilities of the Nomination Committee are:

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

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

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

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

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

Corporate Governance Report

Auditors

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

Investor Relationship and Information Disclosure

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

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

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

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

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

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

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

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

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

Internal Controls

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

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

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

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

Corporate Governance Report

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

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

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

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

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

Financial Management

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

Corporate Governance Report

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

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

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

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

Compliance with Model Code

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

Compliance with the Code on Corporate Governance Practices

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

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

Corporate Governance Report

Safety, Health and Environment

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

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

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

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

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

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

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

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

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

CONTRIBUTION

Management's Discussion and Analysis

The Chinese government attaches enormous importance to the agricultural sector, and gives increasingly greater support to agricultural industry year from year. In the outline for the nation's "eleventh Five-Year Plan", it is put forward explicitly that more efforts should be made to build the "socialist new countryside", the industrial sector should repay the agricultural sector, and that the urban areas should help develop the rural areas. The central government further set down various favorable policies for the farmers, including the removal of agricultural tax nationwide; stabilizing, perfecting and strengthening the direct subsidy policies to agriculture and the farmers; resolutely implementing the most strict arable land protection system; as well as continuing and improving the floor price policy for key grain varieties. Central government budget expenditures for agriculture, rural areas and farmers have been on the increase, from RMB297.5 billion in 2005 to RMB339.7 billion in 2006. Through a series of "give-more-take-less" policies supporting the farmers, the central government hopes to further arouse the enthusiasm of grain producers and boost crop output so as to support the living of China's 1.3 billion population and guarantee the country's food security.

Chemical fertilizers play the utmost important role in increasing grain output. The Chinese population keeps rising, and yet the arable land per capita is decreasing, down from 1.59 mu in 2003 to 1.41 mu in 2004. Consequently, to increase grain production per unit of land by improving soil nutrients through fertilization is an important and effective strategy to ensure food supply of the country. According to statistical analysis, 40-50% of the increase in grain output depends on the increase in fertilizer application.

China is the largest fertilizer consumption country in the world with annual consumption in 2004 reaching 46.37 million tonnes (in nutrients), accounting for about one third of the world's total fertilizer consumption. The trend continued in 2005. The compound annual growth rate of China's fertilizer consumption was 3.4% between 1996 and 2004, above the world's average. Such a rapidly growing market has brought about vast prospects for the development of the Group.

As the largest integrated fertilizer company in China, the Group adheres to the strategy of "focusing on distribution and integrating production, supply and sales for synergic development." Priorities are given to vigorously expand the domestic distribution network so as to enhance sales abilities and market share, to build and consolidate the core competencies of the Group, and to optimize the capacity of production projects as well as to boost negotiating power in product sourcing. Meanwhile, the advantages of self-owned production enterprises and diversified sourcing channels have been brought into full play to provide the downstream distribution network with stable and sufficient supplies of fertilizer products. In addition, the integrated operations of production, supply and sales have been continuously strengthened to achieve the synergic development of the upstream and downstream businesses.



Management's Discussion and Analysis

For the year ended 31 December 2005, the Group achieved remarkable results through capitalising on the market opportunities and pushing forward the growth strategies:

- turnover for 2005 reached HK$19,249 million, increased 62.61% over 2004 (the average annual compound growth rate of the Group's turnover was 40.50% from 2003 to 2005); and

- net profit for 2005 was HK$779 million, increased 52.58% over 2004 (the average annual compound growth rate of the Group's net profit was 41.20% from 2003 to 2005).

I. Business Scale

(1) Sales volume

The Group's sales volume in 2005 was 11.17 million tonnes, an increase of 33.69% over 2004. The increase was mainly attributable to growth in domestic fertilizer sales and operation scale, while that of imported fertilizers remained stable. In 2005, the Group's sales volume of imported fertilizers slightly increased from 5.96 million tonnes in 2004 to 6.36 million tonnes. The sales volume of domestic fertilizers reached 3.85 million tonnes, a sharp increase of 146.79% as compared to 1.56 million tonnes of 2004. In addition, the sales of sulphur and other products also increased.

In terms of product structure, increase in the sales volume of potash fertilizers of 40.73% was mainly attributable to the improved sales of both imported and domestic potash products, sales volume of nitrogen-based and compound fertilizers increased by 91.78% and 58.46% respectively due to the significant growth in the domestic products. Sales volume of domestic phosphate-based fertilizers saw a moderate growth while that of the imported phosphate-based fertilizers declined substantially, which resulted in a decrease of 10.28% in the sales volume over the last year.

Management's Discussion and Analysis

(2) Turnover

Turnover of the Group for the year ended 31 December 2005 was HK$19,249 million, representing an increase of 62.61%, or HK$7,411 million over 2004, which was attributable to the 33.69% increase in sales volume and the 21.64% increase in the average selling price per tonne. The rising raw material prices, transportation cost and the change in the market demand and supply had pushed up the average selling price from HK$1,417 per tonne in 2004 to HK$1,723 per tonne in 2005.

	2005		2004	
	Turnover	**As a percentage of turnover**	Turnover	As a percentage of turnover
	HK$'000		*HK$'000*	
Potash fertilizers	**10,122,007**	**52.59%**	5,452,101	46.06%
Phosphate-based fertilizers	**2,641,101**	**13.72%**	3,092,695	26.13%
Nitrogen-based fertilizers	**3,010,152**	**15.64%**	1,318,981	11.14%
Compound fertilizers	**2,807,174**	**14.58%**	1,518,943	12.83%
Others	**668,231**	**3.47%**	454,465	3.84%
Total	**19,248,665**	**100.00%**	11,837,185	100.00%

II. Profit

(1) Gross profit margin

The gross profit margin of the Group in 2005 remained stable at 8.02%, decreased slightly from 8.66% in 2004 and within the range of 8%-9% for the last three years.

This slight change in gross profit margin was in line with the current business expansion of the Group. The Group has been making huge efforts to expand the distribution network and the domestic fertilizer business, incurring relatively large expenditures in setting up sales outlets, product and brand promotions, as well as logistics and warehousing, to some extent which affected the Group's overall gross profit margin. However, these expenditures will bring about benefits to the Group in the long term. The operating efficiency of the Group's distribution network will be enhanced, and domestic fertilizer operations will be strengthened, and the business scale of the Group will expand rapidly supported by a stable gross profit margin.

The Group's current profit model is to increase overall profit by continuously expanding the business scale while maintaining a basically stable profit margin.

In terms of the gross profit margin of various products, the gross profit margin of potash fertilizers increased steadily, which was mainly attributable to the expansion of the operation scale and the strengthening of market operating ability; the gross profit margin of compound fertilizers dropped as a result of the change of ratio in sales of imported products to domestic products; the gross profit margin of phosphate-based fertilizers and nitrogen-based fertilizers fell slightly due to increased sales volume of domestic products.

(2) Share of results of jointly controlled entities

For the year ended 31 December 2005, the Group realised HK$50 million in share of results of five jointly controlled entities in which the Group had equity interests. This amount was 20.01% higher than the HK$42 million for 2004, which was mainly due to the sound performance and contributions from the jointly controlled entities of the Group in 2005.

(3) Net profit and net profit margin

For the year ended 31 December 2005, net profit of the Group reached HK$779 million, increased 52.58% over the 511 million of 2004. The increase was mainly attributable to the continuous implementation of the set development strategy in 2005, the effects of the integrated business model and a stable gross profit margin, as well as increased net profit along with the expansion of business scale. The stable improvement as such in the Group's financial performances during the last three years shows exactly the maturation and soundness of the Group's profit model.

Net profit margin of the Group in 2005 was 4.05%, decreased slightly from 4.32% for 2004. However, it was still within the range of 4%-4.5% as seen in the last three years. For the same reasons as the change in gross profit margin, the change in net profit margin was also in line with the Group's profit model and the current business expansion of the Group.

III. Expenditures

Selling and distribution expenses increased from HK$316 million in 2004 to HK$395 million in 2005, which was an increase of 24.92%, and mainly attributable to:

- sales volume increased by 33.69% over 2004, incurring proportionally higher transportation, loading and discharging expenses;

- additional logistics and storage expenses were incurred with the penetration of the sales model to end-users;

Administrative expenses increased from HK$119 million in 2004 to HK$223 million in 2005, which represented an increase of 87.88%, and mainly attributable to:

- further expansion of the sales network and substantial growth in the number of sales outlets and employees, which by the end of 2005 increased by 92.57% and 42.31%, respectively, over 2004;

- an inventory provision of HK$37 million was recorded for 2005;

Management's Discussion and Analysis

Finance costs increased from HK$47 million in 2004 to HK$112 million in 2005, which represented an increase of 138.51%, and mainly attributable to:

- increase in the utilization of fund resulted from increased sales activities;
- increase in finance cost because the basic lending rate of US dollar increased by 89% after eight consecutive increases in the interest rate for US dollar during 2005.

The Group's total expenditures increased from HK$482 million in 2004 to HK$730 million in 2005, increased 51.54%, yet the ratio of expenditures to turnover decreased from 4.07% in 2004 to 3.79% for 2005. The Group put great emphasis in cost control during the expansion of the operating scale and sales network, successfully keeping the increase rate of total expenditures lower than that of turnover.

IV. Cash Flow

Cash outflow of the Group in 2005 amounted to HK$151 million. Cash inflow from operating activities of HK$128 million was the funds arising from a faster turnover in trade receivables. Cash outflow from investing activities of HK$21 million was the collection of loans receivable of HK$205 million and the purchase of property, plant and equipment of HK$237 million. In addition, financing activities including the centralised capital operations and payment of bank loans incurred a cash outflow of HK$258 million.

V. Inventory Turnover

The inventory balance of the Group as at 31 December 2005 was HK$4,798 million, increased 22.95% over that of HK$3,903 million for 2004, which was mainly due to the increase of inventory cost per tonne (the average cost of goods sold increased by 22.50% over that of 2004). Inventories at 31 December 2005 were 3.354 million tonnes which was an increase of 5.7% over 2004, and in storage at the ports and inland warehouses.

The inventory turnover rate was increased with the distribution network expansion and the improvement of grass-roots level distribution abilities. The inventory turnover day decreased from 116 days in 2004 to 90 days in 2005, therefore improving the assets operating efficiency.

The Group retained a relatively high inventory level and the reasons were as follows:

- the characteristics of the fertilizer industry featuring balanced all-year-round production but seasonal selling, which requires certain amount of stock to prepare for the selling season in advance; and
- the Group's continuously expanding distribution network requires higher inventory level.

According to the inventory by products, potash fertilizers accounted for 52.37% of total balance as at 31 December 2005. Potash fertilizer, of which China lacks resources, is a core commodity of the Group, therefore the reserving of a relatively large potash inventory was of great significance to ensure domestic potash supply and the profitability of the Group.

Management's Discussion and Analysis

VI. Trade and Bills Receivables

The balance of the Group's trade and bills receivables was HK$847 million, an increase of 58.80% over the HK$533 million in 2004, but proportionate to the increase rate of 62.61% in the Group's turnover for year 2004. Trade and bills receivables of the Group also increased along with the expansion of business scale. The balance of trade and bills receivables accounted for only 4.40% of the total turnover; and there were strict policies in place to control the credit sales which was mainly given to the long-term business partners. In the past few years, there was no uncollectable overdue trade receivables.

Meanwhile, average debtors turnover day decreased from 14 days in 2004 to 13 days in 2005.

VII. Other Financial Indicators

Earnings per share (EPS) of the Group as at the end of 2005 was 14.49 HK cents, increased 43.18% as compared to 10.12 HK cents for 2005, which was mainly attributable to the significant increase in net profit in 2005.

Return on equity (ROE) of the Group was 22.43% in 2005, lower than that of last year. This was mainly because the new issued share capital for the acquisition and re-listing increased the equity by HK$768 million, which significantly increased the net assets. If the effect of this factor was subtracted, the ROE would have been 28.79%, slightly higher than that of 2004.

The current ratio of the Group increased from 1.27 in 2004 to 1.41 in 2005, indicating improved short-term solvency; and the Group's liabilities to equity ratio decreased from 86.06% in 2004 to 34.40% in 2005, falling by 51.66 percentage points, and indicating improved long-term solvency.

	2005	2004
Profitability		
Earnings per share (HK cents)	**14.49**	10.12
Return on equity *(Note 1)*	**22.43%**	26.87%
Return on equity *(Note 2)*	**28.79%**	26.87%
Solvency		
Current ratio *(Note 3)*	**1.41**	1.27
Debt to equity ratio *(Note 4)*	**34.40%**	86.06%

Note 1: Calculated based on profit attributable to Shareholders of the Company for the reporting periods divided by total equity attributable to Shareholders of the Company at the end of the reporting periods.

Note 2: Calculated based on profit attributable to Shareholders of the Company for the reporting periods divided by total equity attributable to Shareholders of the Company at the end of the reporting periods (excluding the effect of equity increase due to new share capital issued upon re-listing).

Note 3: Calculated based on the current assets divided by current liabilities at the end of the reporting periods.

Note 4: Calculated based on the total interest-bearing debt divided by total equity at the end of the reporting periods.

Management's Discussion and Analysis

VIII. Significant Items

(1) Liquidity and financial resources

The Group's principal sources of financing included cash generated from operations, bank borrowings 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, repayment of liabilities as they fall due and related capital expenditures.

As at 31 December 2005, cash and cash equivalents of the Group were HK$67 million, mainly denominated in Renminbi and US dollar.

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

	2005	2004
	HK$'000	*HK$'000*
Secured	**126,744**	180,502
Guaranteed	**13,044**	1,328,983
Unsecured	**1,119,352**	260,221
Total	**1,259,140**	1,769,706

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

As at 31 December 2005, the Group had banking facilities of HK$8,155 million, including US$385 million and RMB5,361 million, denominating in respective currencies. The amount of banking facilities already used was HK$3,488 million, and that of unused was HK$4,667 million.

(2) Financial risk management

The activities of the Group are challenged by various financial risks, including market risks (currency risk, fair value interest rate risk and price risk), credit risk, and liquidity risk as well as cash flow interest rate risk. The overall risk management program of the Group focuses on the difficult predictability of the financial market, and seeks to reduce to the greatest extent possible those potential factors that might negatively affect the Group's financial performance.

Management's Discussion and Analysis

(3) Contingent liabilities

As at 31 December 2005, the Group had no material contingent liabilities.

(4) Capital commitments

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

The amount of "contracted but not provided for" and "authorized but not contracted for" both referred to the assets under construction of Sinochem Fuling.

(5) Major investment

For the year ended 31 December 2005, the Group's major investment of HK$237 million represented the assets under construction of Sinochem Fuling.

GROWTH

Directors' Report

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

Principal Activities

The principal activity of the Company is investment holding.

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

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

Major Customers and Suppliers

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

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

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

Results and Appropriations

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

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

Closure of Register of Members

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

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

Directors' Report

Reserves

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

Share Capital

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

Distributable Reserves

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

Financial Summary

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

Property, Plant and Equipment

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

Donations

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

Principal Properties

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

Purchase, Sale or Redemption of Securities

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

Major Disclosable Events

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

Directors' Report

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

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

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

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

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

Use of the Proceeds from Placing of Shares

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

Directors' Report

Connected Transactions

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

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

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

Continuing Connected Transactions

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

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

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

Directors' Report

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

Subject to Independent Shareholders' Approval Requirements	Term	Currency	Approved Annual Caps of Year 2005	The Actual Transacted Amounts of Year 2005
(A) Import Service Framework Agreement – Sinochem Corporation imports from Sinochem Macao	3 years	USD	1,398,293,000	732,347,295
(A) Import Service Framework Agreement – Sinochem Fertilizer purchases from Sinochem Corporation	3 years	RMB	10,863,000,000	6,460,253,956
(B) Sinochem Macao purchases from US Agri-chem	3 years	USD	52,200,000	No transaction
(C) Sinochem Fertilizer purchases from Sinochem Shandong	3 years	RMB	555,060,000	236,074,273
(D) Sinochem Fertilizer sells to Sinochem Shandong	3 years	RMB	116,407,200	49,148,250

Exempt from Independent Shareholders' Approval Requirements but subject to Reporting and Annoucement Requirements	Term	Currency	Approved Annual Caps of the Year 2005	The Actual Transacted Amounts of the Year 2005
(E) Sinochem UK provides supplier relations and logistics services to Sinochem Macao	3 years	USD	2,000,000	1,333,733
(F) US Chem Resources, Inc. provides supplier relations and logistics services to Sinochem Macao	3 years	USD	2,000,000	31,500
(G) Tianjin Port provides port services to Tianjin Beifang	3 years	RMB	40,000,000 *(Note 1)*	35,051,754
(H) Sinochem Zhisheng provides sales services to the Yongan Zhisheng	15 years	RMB	130,626,000	No transaction
(I) Yongan Zhisheng supplies raw materials to Sinochem Zhisheng	15 years	RMB	54,373,487	50,181,069

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

Directors' Report

1. Continuing Connected Transactions which Require Approval by Independent Shareholders

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

(A) Import Service Framework Agreement

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

(i) The price to be paid by Sinochem Corporation to Sinochem Macao for fertilizer products sold by Sinochem Macao to Sinochem Corporation will be set in accordance with the prevailing international market price;

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

(iii) the price to be paid by Sinochem Fertilizer to Sinochem Corporation for fertilizer products sourced by Sinochem Corporation direct from overseas will be set in accordance with the domestic wholesale market price.

Directors' Report

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

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

(C) Fertilizer Purchase Agreement with Sinochem Shandong

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

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

(D) Fertilizer Supply Agreement with Sinochem Shandong

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

SINOCHEM HONG KONG HOLDINGS LIMITED

Directors' Report

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

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

2. Connected Transactions Exempt from Independent Shareholders' Approval Requirements

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

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

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

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

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

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

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

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

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

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

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

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

Directors' Report

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

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

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

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

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

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

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

(2) Trademark License Agreements dated 6 June 2005 between Sinochem Corporation and 15 subsidiaries of the Company under which Sinochem Corporation has granted a license, on a non-exclusive and non-transferable basis, to each licensee to use in the PRC certain trademarks registered in Sinochem Corporation's name.

(3) Lease Agreement dated 6 June 2005 between Sinochem International Properties Hotel Management Company Limited and Sinochem Fertilizer in relation to two units in an office building in Beijing.

(4) Two Management Agreements In Respect Of Sinochem Group's Joint Venture Interests dated 30 March 2005 between Sinochem Corporation and Sinochem Fertilizer, under which Sinochem Corporation has entrusted Sinochem Fertilizer to manage the rights in its 60% and 40% equity interests in Sinochem Shandong and Tianji JV, respectively.

(5) Yongan Zhisheng Chemical Company Limited entered into an agreement with Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited on 28 July 2002 under which the former agreed to provide water, electricity, gas and steam to the latter.

(6) Yongan Zhisheng Chemical Company Limited entered into a trademark licence agreement with Fujian Sinochem Zhisheng Chemical Fertilizer Company Limited on 25 August 2003 under which it has licensed the use of a trademark registered in its name to Fujian Sinochem Zhisheng Chemical Fertilizer on a nonexclusive and non-transferable basis and free of charge.

(7) Tianjin North Sea Industry Company Limited and Tianjin Beifang entered into a lease agreement on 21 May 2004. Pursuant to the lease agreement, Tianjin North Sea Industry Company Limited has leased an office space of approximately 140 square meters to Tianjin Beifang at an annual rent of RMB50,000. Tianjin North Sea Industry Company Limited has also leased a sedan to Tianjin Beifang for the latter's business use at a monthly rent of RMB3,000.

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

Directors' Report

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

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

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

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

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

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

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

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

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

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

5. Confirmations from Independent Non-Executive Directors and Auditors

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

(i) in the ordinary and usual course of its business;

(ii) either on normal commercial terms or, where there are no sufficient comparables, on terms no less favorable than the terms the Company could have obtained from an independent third party; and

(iii) in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of the shareholders of the Company.

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

(i) have received the approval of the Company's Board of Directors;

(ii) were in accordance with the pricing policy if transactions involve the provision of goods and services;

(iii) have been entered into in accordance with the relevant agreements governing the Continuing Connected Transactions; and

(iv) have not exceeded their respective cap limits disclosed in previous announcement(s) .

The Contracts of Significance between the Company and the Controlling Shareholder

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

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

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

Directors' Report

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

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

Directors

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

Executive Directors

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

Non-Executive Directors

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

Independent Non-Executive Directors

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

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

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

Directors' Report

Directors' Service Contracts

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

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

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

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

Directors' Report

Directors' Interests in Contracts of Significance

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

Directors' Interests in Competing Business

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

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

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

Profiles of Directors and Senior Management

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

Directors' Interests in the Shares

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

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

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

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

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

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

Notes:

(1) The number of ordinary shares consists of (a) 3,890,239,114 ordinary shares owned by Sinochem HK and (b) 580,214,187 ordinary shares owned by PotashCorp in which Sinochem HK is deemed to have an interest under the provisions of the SFO.

(2) The 581,375,779 ordinary shares are subject to an option granted by Sinochem HK to PotashCorp pursuant to which PotashCorp may exercise the option to purchase up to such number of ordinary shares from Sinochem HK.

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

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

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

Directors' Report

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

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

Notes:

(1) The number of ordinary shares consists of (a) 3,108,863,335 ordinary shares owned by Sinochem HK and (b) 1,161,589,966 ordinary shares owned by PotashCorp in which Sinochem HK is deemed to have an interest under the provisions of the SFO.

(2) Sinochem Corporation is taken to be interested in the ordinary shares of the Company in which Sinochem HK, its wholly-owned subsidiary, holds an interest.

(3) The number specified consists of (a) 1,161,589,966 ordinary shares owned by PotashCorp, (b) 3,108,863,335 ordinary shares owned by Sinochem HK in which PotashCorp is deemed to have an interest under sections 317 and 318 of the SFO.

Public Float

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

Pre-emptive Rights

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

The Share Option Scheme and Its Granting

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

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

Notes:

(1) Former directors of the Company

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

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

Directors' Report

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

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

Notes:

(1) Non-executive Director of the Company

(2) Executive Director of the Company

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

Compensation Policy

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

Housing Funds

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

Directors' Report

Auditors

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

By Order of the Board

Liu De Shu
Chairman

Hong Kong, 10 April 2006

Auditors' Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

TO THE SHAREHOLDERS OF
SINOCHEM HONG KONG HOLDINGS LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 63 to 134 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 April 2006

Financial Statements

Consolidated Income Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	(Restated) 2004 HK$'000
Turnover	6	**19,248,665**	11,837,185
Cost of sales		**(17,705,872)**	(10,812,113)
Gross profit		**1,542,793**	1,025,072
Other gains, net	7	**67,701**	83,423
Selling and distribution expenses		**(394,898)**	(316,130)
Administrative expenses		**(223,204)**	(118,799)
Operating profit	9	**992,392**	673,566
Finance costs	8	**(112,376)**	(47,115)
Share of results of jointly controlled entities	21	**49,941**	41,614
Profit before income tax		**929,957**	668,065
Income tax expense	10	**(137,533)**	(141,254)
Profit for the year		**792,424**	526,811
Profit attributable to:			
Shareholders of the Company	11	**779,421**	510,824
Minority interests		**13,003**	15,987
		792,424	526,811
Dividends	12	**116,913**	–
Basic earnings per share for profit attributable to the shareholders of the Company	13	**14.49 HK cents**	10.12 HK cents

The notes on pages 69 to 134 are an integral part of these financial statements.

Financial Statements

Consolidated Balance Sheet

As at 31 December 2005

	Note	2005 HK$'000	(Restated) 2004 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	15	**726,510**	507,994
Investment properties	16	**160,000**	–
Land use rights	17	**41,924**	42,659
Mining right	18	**22,839**	–
Goodwill	19	**356,503**	–
Deferred income tax assets	32	**2,094**	2,048
Interests in jointly controlled entities	21	**367,861**	351,698
Investment securities	22	**–**	14,198
Available-for-sale financial assets	22	**14,462**	–
		1,692,193	918,597
Current assets			
Inventories	23	**4,798,149**	3,902,571
Loans receivable	24	**–**	205,462
Trade and bills receivables	25	**846,710**	533,193
Advance payments and other receivables		**453,839**	1,052,677
Bills discounted to banks	26	**1,417,893**	–
Cash and cash equivalents	27	**66,551**	214,064
		7,583,142	5,907,967
Total assets		**9,275,335**	6,826,564

Financial Statements

Consolidated Balance Sheet (Continued)

As at 31 December 2005

	Note	2005 HK$'000	(Restated) 2004 HK$'000
EQUITY			
Equity attributable to the shareholders of the Company			
Issued equity	*28(a)*	**767,766**	78
Reserves	*30*	**2,589,979**	1,900,788
Proposed final dividend	*12*	**116,913**	–
		3,474,658	1,900,866
Minority interests		**186,055**	155,436
Total equity		**3,660,713**	2,056,302
LIABILITIES			
Non-current liabilities			
Borrowings	*31*	**234,088**	130,701
Deferred income tax liabilities	*32*	**21,385**	4,154
		255,473	134,855
Current liabilities			
Trade and bills payables	*33*	**2,448,312**	1,431,328
Receipts in advance and other payables		**417,284**	1,456,682
Current income tax liabilities		**50,608**	108,392
Bank advances for discounted bills	*26*	**1,417,893**	–
Borrowings	*31*	**1,025,052**	1,639,005
		5,359,149	4,635,407
Total liabilities		**5,614,622**	4,770,262
Total equity and liabilities		**9,275,335**	6,826,564
Net current assets		**2,223,993**	1,272,560
Total assets less current liabilities		**3,916,186**	2,191,157

Liu De Shu
Director

Du Ke Ping
Director

The notes on pages 69 to 134 are an integral part of these financial statements.

Financial Statements

Balance Sheet

As at 31 December 2005

	Note	At 31 December 2005 HK$'000	At 31 March 2005 (Note 44) HK$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	*20*	**8,009,704**	447,024
Current assets			
Amount due from a subsidiary	*34*	**124,120**	–
Other receivables		**1,228**	1,995
Cash and cash equivalents	*27*	**1,270**	1,270
		126,618	3,265
Total assets		**8,136,322**	450,289
EQUITY			
Share capital	*28(b)*	**580,795**	367,950
Reserves	*30*	**7,433,253**	(465,703)
Proposed final dividend	*12*	**116,913**	–
Total equity		**8,130,961**	(97,753)
LIABILITIES			
Non-current liabilities			
Amount due to a director		**–**	1,271
Amounts due to subsidiaries	*35*	**–**	428,680
		–	429,951
Current liabilities			
Other payables		**5,361**	2,069
Amount due to a director		**–**	2,400
Amount due to a shareholder	*36*	**–**	113,622
		5,361	118,091
Total liabilities		**5,361**	548,042
Total equity and liabilities		**8,136,322**	450,289
Net current assets/(liabilities)		**121,257**	(114,826)
Total assets less current liabilities		**8,130,961**	332,198

Liu De Shu
Director

Du Ke Ping
Director

The notes on pages 69 to 134 are an integral part of these financial statements.

Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

		Attributable to shareholders of the Company				
	Note	Issued equity HK$'000	Reserves HK$'000	Total HK$'000	Minority interests HK$'000	Total equity HK$'000
Balance at 1 January 2004, as previously reported as equity		–	1,110,252	1,110,252	–	1,110,252
Balance at 1 January 2004, as previously separately reported as minority interests		–	–	–	41,501	41,501
Balance at 1 January 2004		–	1,110,252	1,110,252	41,501	1,151,753
Profit for the year		–	510,824	510,824	15,987	526,811
Currency translation differences		–	(482)	(482)	–	(482)
Issue of ordinary shares		78	–	78	–	78
Contribution from owner		–	280,194	280,194	1,091	281,285
Acquisition of subsidiaries	*37(c)*	–	–	–	96,857	96,857
Balance at 31 December 2004		78	1,900,788	1,900,866	155,436	2,056,302
Balance at 1 January 2005, as previously reported as equity		**78**	**1,900,788**	**1,900,866**	**–**	**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**	**1,900,788**	**1,900,866**	**155,436**	**2,056,302**
Profit for the year		**–**	**779,421**	**779,421**	**13,003**	**792,424**
Currency translation differences		**–**	**26,683**	**26,683**	**3,684**	**30,367**
Contribution from owner		**–**	**–**	**–**	**10,208**	**10,208**
Dividends paid to minority shareholders		**–**	**–**	**–**	**(5,412)**	**(5,412)**
Issue of ordinary shares, net of issuing expenses	***28(b)(iv)***	**482,325**	**–**	**482,325**	**–**	**482,325**
Acquisition of subsidiaries	***38(a)***	**285,363**	**–**	**285,363**	**9,136**	**294,499**
Balance at 31 December 2005		**767,766**	**2,706,892**	**3,474,658**	**186,055**	**3,660,713**

The notes on pages 69 to 134 are an integral part of these financial statements.

SINOCHEM HONG KONG HOLDINGS LIMITED

Financial Statements

Consolidated Cash Flow Statement

For the year ended 31 December 2005

	Note	2005 HK$'000	2004 HK$'000
Cash flows from operating activities			
Cash generated from operations	37(a)	**424,905**	454,299
Interest received		**6,280**	24,932
Interest paid		**(112,376)**	(47,115)
Income tax paid		**(191,119)**	(143,268)
Net cash generated from operating activities		**127,690**	288,848
Cash flows from investing activities			
Purchase of property, plant and equipment		**(255,445)**	(56,011)
Proceeds from disposal of property, plant and equipment	37(b)	**285**	2,937
Additional investments in jointly controlled entities		**–**	(94,011)
Acquisition of subsidiaries	38 and 37(c)	**(15,445)**	33,297
Proceeds from disposal of investment securities		**–**	99,220
Purchase of investment securities		**–**	(3,488)
Dividends received from jointly controlled entities		**41,782**	–
Dividends received from unlisted investments		**2,602**	2,069
New loans receivable		**–**	(6,707,014)
Repayment of loans receivable		**205,462**	6,522,140
Net cash used in investing activities		**(20,759)**	(200,861)
Net cash inflow before financing activities		**106,931**	87,987
Cash flows from financing activities			
Decrease in amount due to a director		**(3,271)**	–
Decrease in amount due to a shareholder		**(116,941)**	–
Incorporation of companies		**–**	156
Proceeds from borrowings		**13,025,875**	7,022,665
Repayments of borrowings		**(13,653,333)**	(7,155,965)
Proceeds from placing of shares, net of issuing expenses		**482,325**	–
Dividends paid to minority shareholders		**(2,371)**	–
Capital contributions by minority shareholders		**10,208**	1,091
Net cash used in financing activities		**(257,508)**	(132,053)
Net decrease in cash and cash equivalents		**(150,577)**	(44,066)
Cash and cash equivalents at 1 January		**214,064**	258,612
Effect of foreign exchange rate changes		**3,064**	(482)
Cash and cash equivalents at 31 December		**66,551**	214,064

The notes on pages 69 to 134 are an integral part of these financial statements.

1 General information

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

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

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

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

2 Reverse acquisition and change of financial year end date

(a) Reverse acquisition

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

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

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

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

Financial Statements

Notes to the Financial Statements

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

(a) Reverse acquisition (Continued)

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

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

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

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

(b) Change of financial year end date

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

3 Summary of significant accounting policies

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

3.1 Basis of preparation

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

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

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

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

SINOCHEM HONG KONG HOLDINGS LIMITED

3 Summary of significant accounting policies (Continued)

3.1 Basis of preparation (Continued)

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

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies (Continued)

3.1 Basis of preparation (Continued)

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

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

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

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

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

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

– HKFRS 3 – prospectively after the adoption date.

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

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

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

3 Summary of significant accounting policies (Continued)

3.1 Basis of preparation (Continued)

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

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

3.2 Consolidation

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

(a) *Subsidiaries*

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

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

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

3 Summary of significant accounting policies (Continued)

3.2 Consolidation (Continued)

(a) *Subsidiaries (Continued)*

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

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

(b) *Transactions with minority interests*

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

(c) *Jointly controlled entities*

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

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

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

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

Financial Statements

Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.3 Segment reporting

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

3.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

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

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

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

3 Summary of significant accounting policies (Continued)

3.4 Foreign currency translation (Continued)

(c) Group companies (Continued)

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

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

3.5 Property, plant and equipment

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies (Continued)

3.6 Investment properties

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

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

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

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

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

3.7 Goodwill

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

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

3 Summary of significant accounting policies (Continued)

3.8 Impairment of non-financial assets

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

3.9 Financial assets

From 1 January 2004 to 31 December 2004:

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

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

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

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

From 1 January 2005 onwards:

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

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

Financial Statements

Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.9 Financial assets (Continued)

(a) *Loans and receivables*

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

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

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

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

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

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

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

SINOCHEM HONG KONG HOLDINGS LIMITED

3 Summary of significant accounting policies (Continued)

3.9 Financial assets (Continued)

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

3.10 Inventories

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

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

3.11 Trade and other receivables

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

Financial Statements

Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.12 Cash and cash equivalents

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

3.13 Share capital

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

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

3.14 Borrowings

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

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

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

3.15 Deferred income tax

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

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

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

3 Summary of significant accounting policies (Continued)

3.16 Employee benefits

(a) Pension obligations

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

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

(b) Profit sharing and bonus plans

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

3.17 Revenue recognition

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

(a) Sales of goods

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

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

SINOCHEM HONG KONG HOLDINGS LIMITED

Financial Statements

Notes to the Financial Statements

3 Summary of significant accounting policies (Continued)

3.17 Revenue recognition (Continued)

(b) *Sales of services*

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

(c) *Rental income*

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

(d) *Interest income*

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

(e) *Dividend income*

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

3.18 Leases (as the lessee)

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

3.19 Government grants

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

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

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

3 Summary of significant accounting policies (Continued)

3.20 Research and development

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

3.21 Provisions

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

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

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

3.22 Contingent liabilities

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

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

3.23 Dividend distribution

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

Financial Statements

Notes to the Financial Statements

4 Financial risk management

4.1 Financial risk factors

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

(a) Foreign exchange risk

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

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

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

(b) Credit risk

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

(c) Liquidity risk

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

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

4 Financial risk management (Continued)

4.1 Financial risk factors (Continued)

(d) Cash flow and fair value interest rate risk

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

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

4.2 Fair value estimation

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

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

5 Critical accounting estimates and judgements

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

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

Financial Statements

Notes to the Financial Statements

5 Critical accounting estimates and judgements (Continued)

(a) Estimated impairment of goodwill

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

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

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

(c) Net realisable value of inventories

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

(d) Trade and other receivables

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

(e) Income tax expense

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

6 Turnover and segment information

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

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

The Group is organised into two main business segments:

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

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

SINOCHEM HONG KONG HOLDINGS LIMITED

Financial Statements

Notes to the Financial Statements

6 Turnover and segment information (Continued)

(a) Primary reporting format – business segments

The segment information is set out below:

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

6 Turnover and segment information (Continued)

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

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

(b) Secondary reporting format – geographical segments

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

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

Financial Statements

Notes to the Financial Statements

7 Other gains, net

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

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

8 Finance costs

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

9 Operating profit

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

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

10 Income tax expense

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

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

SINOCHEM HONG KONG HOLDINGS LIMITED

10 Income tax expense (Continued)

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

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

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

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

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

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

11 Profit attributable to shareholders of the Company

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

12 Dividends

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

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

13 Earnings per share

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

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

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

14 Employee benefit expenses

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

SINOCHEM HONG KONG HOLDINGS LIMITED

14 Employee benefit expenses (Continued)

(a) Pensions – defined contribution plans

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

(b) Directors' and senior management's emoluments

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

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

14 Employee benefit expenses (Continued)

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

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

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

Notes:

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

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

14 Employee benefit expenses (Continued)

(c) Five highest paid individuals

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

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

The emoluments fell within the following band:

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

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

15 Property, plant and equipment

The Group

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

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

Financial Statements

Notes to the Financial Statements

16 Investment properties

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

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

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

17 Land use rights

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

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

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

18 Mining right

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

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

19 Goodwill

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

Impairment tests for goodwill

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

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

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

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

Financial Statements

Notes to the Financial Statements

19 Goodwill (Continued)

Key assumptions used for value-in-use calculations

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

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

20 Investments in subsidiaries – The Company

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

Note:

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

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

21 Interests in jointly controlled entities

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

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

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

Financial Statements

Notes to the Financial Statements

21 Interests in jointly controlled entities (Continued)

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

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

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

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

22 Available-for-sale financial assets/Investment securities

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

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

23 Inventories

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

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

24 Loans receivable

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

Financial Statements

Notes to the Financial Statements

25 Trade and bills receivables

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

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

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

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

26 Bills discounted to banks/Bank advances for discounted bills

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

27 Cash and cash equivalents

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

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

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

Financial Statements

Notes to the Financial Statements

28 Issued equity

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

(a) Issued equity of the Group

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

(b) Share capital of the Company

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

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

28 Issued equity (Continued)

(b) Share capital of the Company (Continued)

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

Notes:

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

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

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

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

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

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

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

Financial Statements

Notes to the Financial Statements

28 Issued equity (Continued)

(b) Share capital of the Company (Continued)

Notes: (Continued)

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

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

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

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

29 Share option scheme

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

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

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

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

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

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

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

SINOCHEM HONG KONG HOLDINGS LIMITED

Financial Statements

Notes to the Financial Statements

30 Reserves

The Group

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

30 Reserves (Continued)

The Company

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

SINOCHEM HONG KONG HOLDINGS LIMITED

30 Reserves (Continued)

Notes:

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

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

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

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

31 Borrowings

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

Financial Statements

Notes to the Financial Statements

31 Borrowings (Continued)

Notes:

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

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

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

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

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

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

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

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

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

31 Borrowings (Continued)

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

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

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

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

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

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

Financial Statements
Notes to the Financial Statements

32 Deferred income tax

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

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

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

The movement on the deferred income tax is as follows:

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

32 Deferred income tax (Continued)

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

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

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

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

Financial Statements

Notes to the Financial Statements

33 Trade and bills payables

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

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

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

34 Amount due from a subsidiary – The Company

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

35 Amounts due to subsidiaries – The Company

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

36 Amount due to a shareholder – The Company

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

37 Notes to the consolidated cash flow statement

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

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

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

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

Financial Statements

Notes to the Financial Statements

37 Notes to the consolidated cash flow statement (Continued)

(c) Major non-cash transactions

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

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

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

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

Analysis of net inflow of cash and cash equivalents:

Bank balances and cash acquired	33,297

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

38 Business combinations

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

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

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

Notes:

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

38 Business combinations (Continued)

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

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

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

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

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

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

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

39 Contingent liabilities

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

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

40 Commitments

(a) Capital commitments

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

(b) Future operating lease arrangements

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

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

(c) Operating lease commitments

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

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

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

Financial Statements
Notes to the Financial Statements

41 Significant related party transactions

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

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

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

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

Companies beneficially owned by Sinochem Corporation

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

41 Significant related party transactions (Continued)

Jointly controlled entities of the Group

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

Joint venture partner of Sinochem Zhisheng

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

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

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

Financial Statements

Notes to the Financial Statements

41 Significant related party transactions (Continued)

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

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

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

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

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

41 Significant related party transactions (Continued)

Notes:

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

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

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

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

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

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

Financial Statements

Notes to the Financial Statements

41 Significant related party transactions (Continued)

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

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

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

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

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

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

(g) Key management compensation

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

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

42 Particulars of principal subsidiaries and jointly controlled entities

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

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

Financial Statements

Notes to the Financial Statements

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

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

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

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

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

43 Events after the balance sheet date

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

SINOCHEM HONG KONG HOLDINGS LIMITED

44 Comparative figures

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

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

SINOCHEM HONG KONG HOLDINGS LIMITED

Other Information

1. Financial Summary

The historical figures represent financial information of Fertilizer Group for the period from 2002 to 2004 and the Group for 2005. (Please refer to note 2 in the financial statements.)

Results

	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**19,248,665**	11,837,185	9,750,373	7,333,691
Operating profit	**992,392**	673,566	526,926	309,709
Finance costs	**(112,376)**	(47,115)	(42,663)	(30,228)
Share of results of jointly controlled entities	**49,941**	41,614	7,516	(209)
Profit before income tax	**929,957**	668,065	491,779	279,272
Income tax expense	**(137,533)**	(141,254)	(99,014)	(53,598)
Profit for the year	**792,424**	526,811	392,765	225,674

Assets and Liabilities

	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**9,275,335**	6,826,564	4,233,883	4,586,864
Total liabilities	**(5,614,622)**	(4,770,262)	(3,082,130)	(3,840,798)
Total equity	**3,660,713**	2,056,302	1,151,753	746,066

Other Information

2. Principal Properties of the Group

As at 31 December 2005

Investment properties

Location	Existing use	Lease term
Wallpark Commercial Building, Nos. 10-12 Chatham Court, Tsimshatsui, Kowloon	Commercial	Medium lease
Workingbond Commercial Centre, No. 162 Prince Edward Road West, Mongkok, Kowloon	Commercial	Long lease

中化香港控股有限公司
SINOCHEM HONG KONG HOLDINGS LIMITED
Unit 4601- 4610, 46th Floor,
Office Tower, Convention Plaza,
1 Harbour Road,
Wanchai, Hong Kong.